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A. I. D.
HISTORICAL
COLLECTION

UNIT TWO

ORIENTATION

HANDBOOK



STRATEGY

FOREIGN POLICY
OBJECTIVES

A. I. D.
Reference Center
Room 1600

WHAT AID
ACTUALLY DOES

AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D.C.

"To those people in the huts and villages of half the globe struggling to break the bonds of mass misery, we pledge our best efforts to help them help themselves, for whatever period is required ... not because the Communists may be doing it, not because we seek their votes, but because it is right.

"If a free society cannot help the many who are poor, it cannot save the few who are rich"

**JOHN F. KENNEDY
PRESIDENT**

January 20, 1961

A.I.D.
Development Information Center
Room 105 SA-18
Washington, D.C. 20523-1801

A. I. D.
HISTORICAL
COLLECTION

The purpose of the series of lectures you will hear during this week is to provide a substantive perspective for your individual skills.

One of AID's most valuable resources is the extensive range of professional and technical skills among its employees. Such skills, to be most effective, must be not only properly focused upon the immediate task; they must be correlated to the broader objectives of AID; and they must be congruent with the other program endeavors.

The lectures this week will not attempt to tell you how to do your job, whether your job is in Washington or in an AID Mission. Such knowledge is largely yours already by virtue of your academic training and experience. Your technical (or administrative) backstop office will augment such knowledge by explaining the nature of your specific job and discussing the special problems or techniques associated with it.

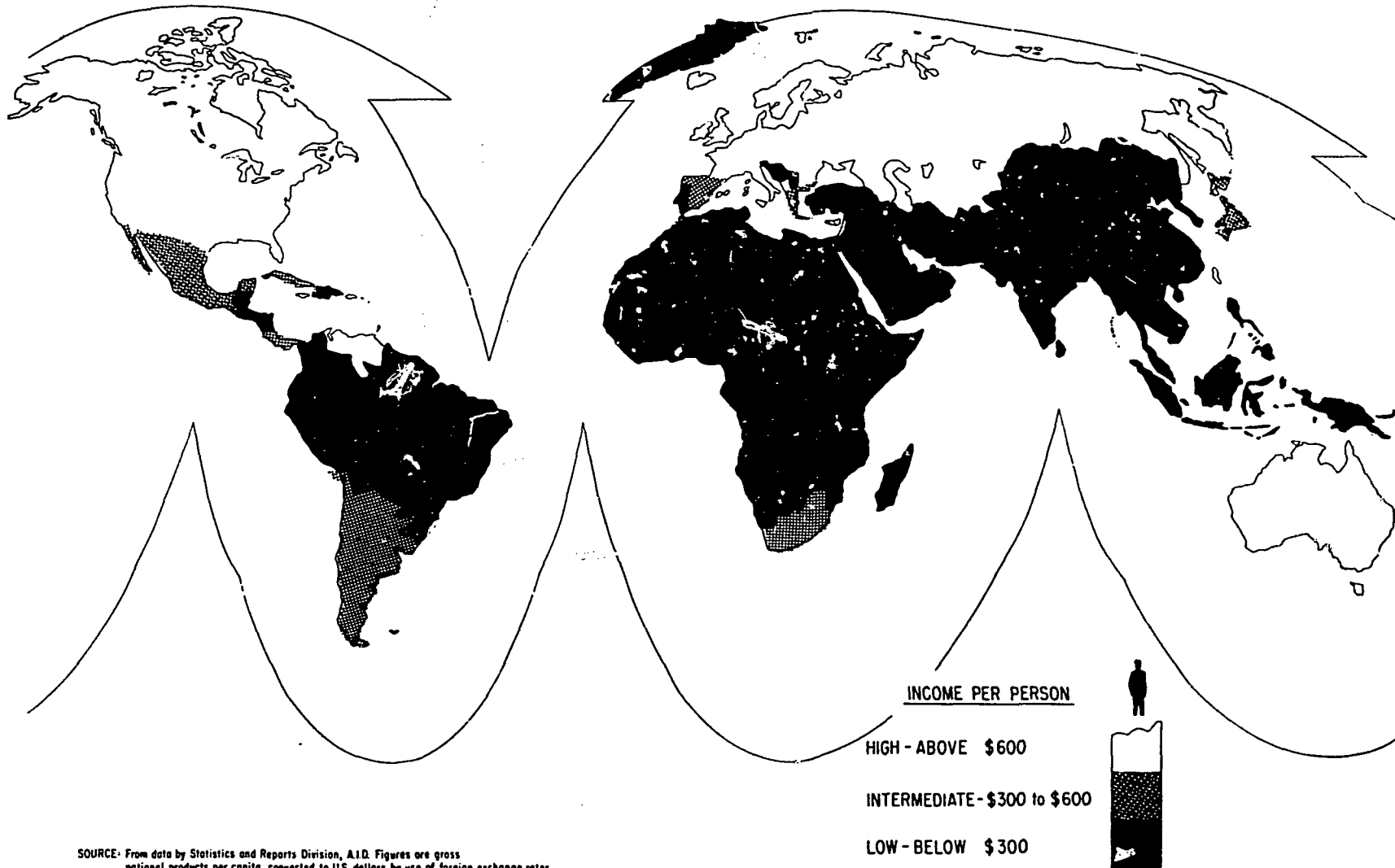
Instead, the Unit Two lecture series is designed to provide you with general insight regarding the AID program, and with understanding about the efforts of other members of your team, so that you may best utilize your own specialized skills.

CURRICULUM

In addition to the regularly scheduled lectures, Dr. Hollis B. Chenery or Mr. Lester Gordon will meet with the orientation group during this week to briefly discuss AID policy issues. Dr. Chenery is Assistant Administrator for Program. Mr. Gordon is Deputy Assistant Administrator for Program.

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Lecturers: Mr. Arthur W. Frazer Mr. Karl F. Bode Program Coordination Staff	
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Lecturers: Mr. Donald H. McClelland Mr. David C. Cole Program Coordination Staff	
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Lecturers: Mr. Bartlett Harvey Mr. Charles J. Stockman Program Coordination Staff	
UNIT TWO SUMMARY AND EVALUATION	
Mr. Arthur W. Frazer	

WORLD INCOME LEVELS - 1961



SOURCE: From data by Statistics and Reports Division, A.I.D. Figures are gross national products per capita, converted to U.S. dollars by use of foreign exchange rates.

THE PROBLEMS OF DEVELOPMENT

Reference Reading:^{1/}

The Emerging Nations, edited by Max Millikan and Donald Blackmer.
Chs. III, IV, V.

The Great Ascent, Robert Heilbroner. Chs. II, III.

^{1/} All reference material included in your orientation kit.

LECTURE OUTLINE

- I. Introduction to "Unit Two" Orientation
- II. Development Is Our Business
 - A. Assistance Under Marshall Plan
 - 1. not development -- rebuilding
 - 2. revealed certain countries with hard core development problems
 - B. Emerging Philosophy of Assistance to Under-Developed Countries
- III. Extent of Underdevelopment
 - A. Use of GNP Yardstick
 - B. MAP - World Income Levels
 - 1. highly developed
 - 2. intermediate
 - 3. underdeveloped countries
 - a. 2/3's world population
 - C. Tableau of Underdevelopment
- IV. The Hundred Faces of Underdevelopment
 - A. Identifying the Hallmarks of Underdevelopment
 - B. Comparative Indicators
 - C. The Interrelationship of the Hallmarks
- V. The Process of Development
 - A. What Makes for Development?
 - B. A Look at the Forces in U. S. Development
 - 1. abundant natural resources to develop
 - 2. freely available land

3. labor supply
 - a. skilled artisans from Europe
 - b. plenteous unskilled labor
4. extensive development capital from Europe
5. institutional forces
 - a. entrepreneurial spirit (pioneers)
 - b. reformation and puritan heritage
 1. virtue of work, thrift, investment
 - c. renaissance heritage
 1. literacy and knowledge
 - d. industrial revolution

VI. The Emerging Strategies

- A. Removal of Impediments
 1. assist natural economic forces
- B. Institutional Changes
 1. attitudes, motivations
 2. cultural traditions
- C. Technology -- Transplanting Know-How
 1. adapting technology to usable levels
- D. Seeding with External Capital
- E. The Confluence of Forces

VII. What AID Does About It

Other Relevant Reading:

The Strategy of Economic Development, Albert O. Hirschman
Economic Development in Perspective, J. Kenneth Galbraith
The Stages of Economic Growth, Walt W. Rostow
The Future of Underdeveloped Countries, Eugene Staley

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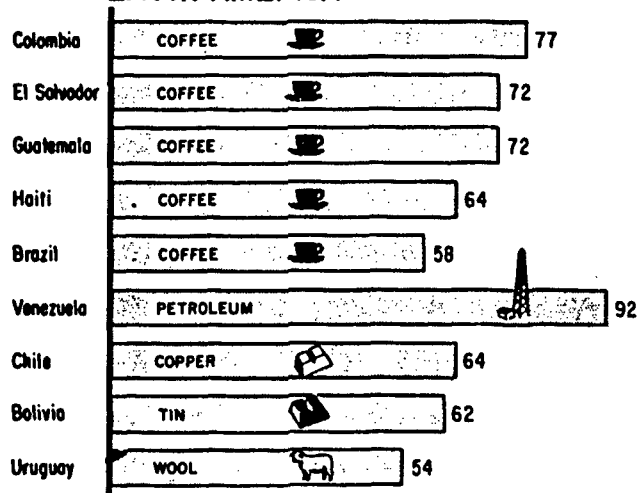
1961

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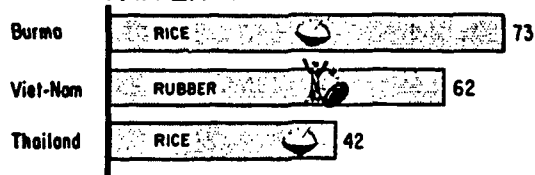
MANY COUNTRIES ARE DEPENDENT ON A SINGLE EXPORT COMMODITY

Single Export Commodity as a Percent of Total Exports (1957-59 Average)

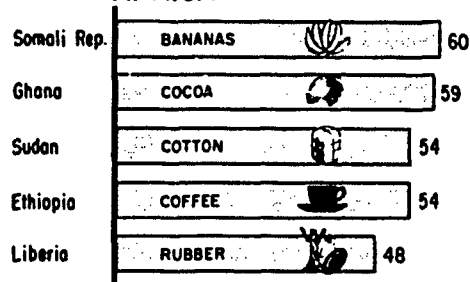
LATIN AMERICA



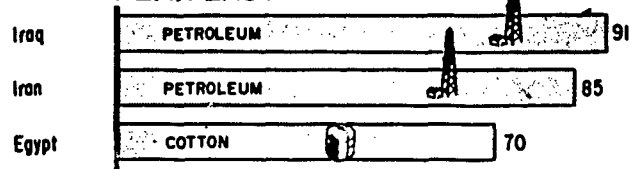
FAR EAST



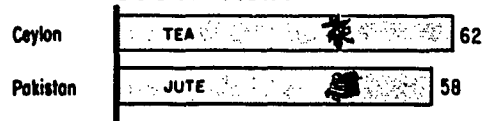
AFRICA



NEAR EAST



SOUTH ASIA



THE ROLE OF AID IN U.S. FOREIGN POLICY

Reference Reading:^{1/}

Principles of Foreign Economic Assistance (AID Publication), Ch. I.

Summary Presentation to Congress (AID Publication), Ch. I.

"Objectives and Criteria for Foreign Assistance", by Hollis B. Chenery.

^{1/} All reference material included in your orientation kit.

LECTURE OUTLINE

- I. U.S. Foreign Policy Goals and the Role of Foreign Aid
 - A. U.S. Interest in the Developing Countries Since World War II
 - B. Long-Term U.S. Goals: Security and Development
 - C. Shorter Term U.S. Goals
 - D. Relating the Use of Aid to Multiple Goals. Conflicts Among Goals. The Effectiveness of Aid as a Tool for Achieving Different Goals.
- II. Criteria for Determining the Size and Type of Country Assistance
 - A. The Effectiveness with which a Country can use Available Resources, Internal and External, to Promote Development
 - B. The Importance to the U.S. of Sustaining or Accelerating the Development of the Country
 - C. The Availability of the Country or Other External Resources in a Suitable Form
- III. Types of Country Programs
 - A. Development Programs
 - 1. programs in countries approaching self-sustained growth
 - 2. programs in countries conducting vigorous well-planned development efforts, to which we give general and substantial support
 - 3. conditional aid programs
 - B. Security/Stability Programs

C. Limited Objectives Programs

1. access to facilities
2. providing alternatives to Sino-Soviet Block assistance
3. supplementing ex-metropole assistance
4. holding action

IV. Aid in Relation to Other Foreign Policy Tools

- A. Coordinating Functions of AA/PC
- B. Country Team Approach at the Field Level

Other Relevant Reading:

The Emerging Nations, edited by Max Millikan and Donald Blackmer

The Rich and the Poor, Robert Theobald

The Diplomacy of Economic Development, Eugene R. Black

The Politics of Developing Areas, Gabriel Almond and James Coleman

The Limits of Foreign Policy, Charles B. Marshall

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THE TOOLS OF AID -- FINANCIAL ASSISTANCE

Reference Reading:^{1/}

Principles of Foreign Economic Assistance (AID Publication),
Chs. III, IV.
Summary Presentation to Congress (AID Publication)

^{1/} All reference material included in your orientation kit.

LECTURE OUTLINE

- I. The Major Instruments Over Time (\$100 Plus Billion Program)
- A. Pre Marshall Plan
 - B. Marshall Plan
 - C. Military Assistance Program
 - D. A.I.D. Type Assistance
 - E. PL 480 (Food for Peace)
 - F. EXIM (Export-Import Bank) Medium

- II. The Financial Tools of AID Today - The Main Appropriation Categories (With Country Illustrations)

FY 1964		
	<u>Request</u>	<u>Appropriation</u>
	<u>(Mill.</u>	<u>Dollars)</u>
A. Supporting Assistance (SA) (Korea, Viet Nam, Jordan, etc.)	440	330
1. a residual category		
2. formerly largest, greatly reduced (the Mansfield Amendment)		
B. Development Loans (DL) (Pakistan, India, Turkey, Nigeria, etc.)	1,060	687
1. loans in a real sense, even though concessional.		
2. main thrust today.		

FY 1964
Request Appropriation
(Mill. Dollars)

C. Development Grants (DG)	250	174
1. largely technical assistance		
D. The Alliance for Progress	850	590
1. loans and grants		
2. why a separate program?		
3. different stage of development		
4. prospects for induced self-help (Chile, Brazil, Colombia, etc.)		
E. Contingency Fund	300	50
F. Other Economic	200	169
Total Economic	<u>3,100</u>	<u>2,000</u>
G. Military Assistance Program (MAP)	1,400	1,000
Total Foreign Assistance Act	4,500	3,000

III. Non-U.S. and Multi-Lateral Assistance

- A. Western Europe - The Development Advisory Committee (DAC)
- B. The International Bank for Reconstruction and Development (IBRD) -
 Also Called the World Bank - and the International Development
 Fund (IDA)
- C. United Nations Technical Assistance and Other Special U.N.
 Programs
- D. The Inter-American Development Bank (IDB)

Other Relevant Reading:

Grants, Loans, and Local Currency, Robert E. Asher

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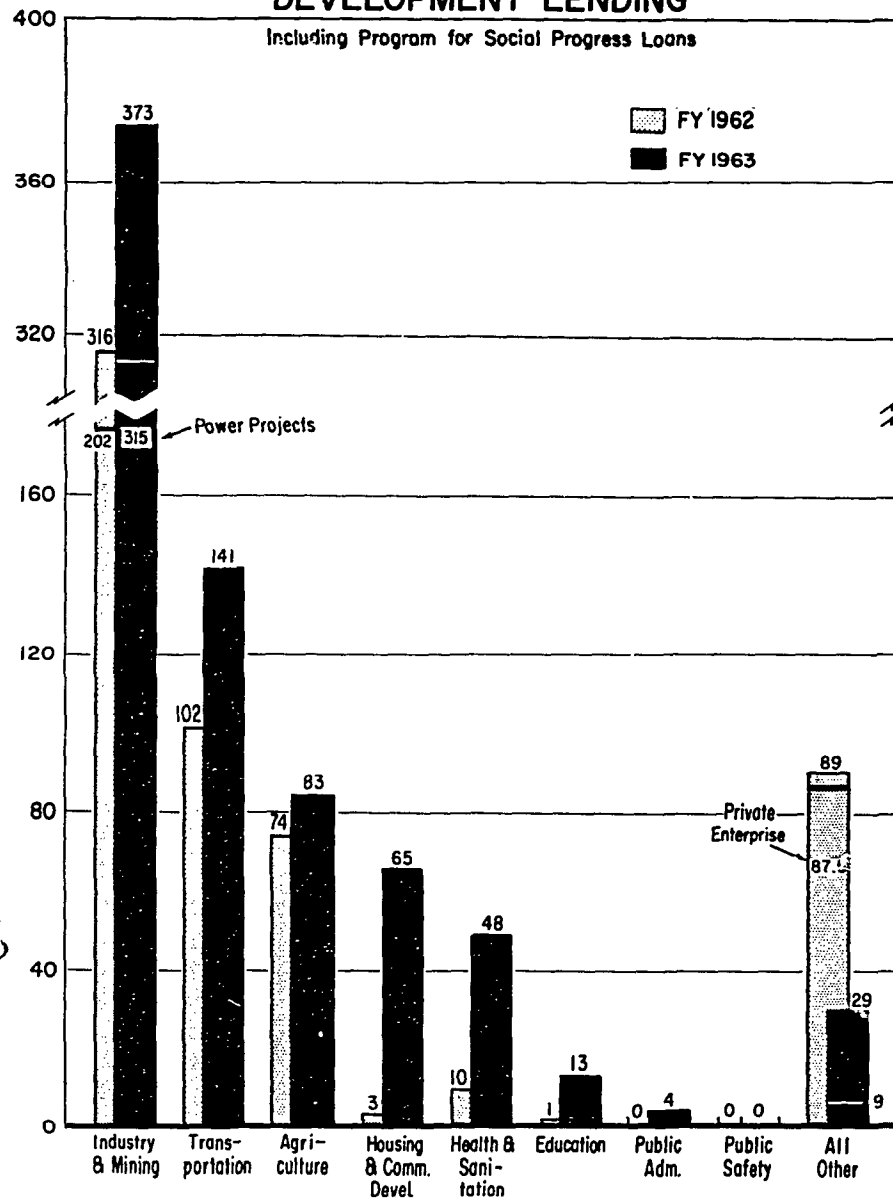
DISTRIBUTION OF PROJECTS BY CATEGORY OF FUNDS AND FIELD OF ACTIVITY

FY1962 and 1963 Projects

(Millions of Dollars)

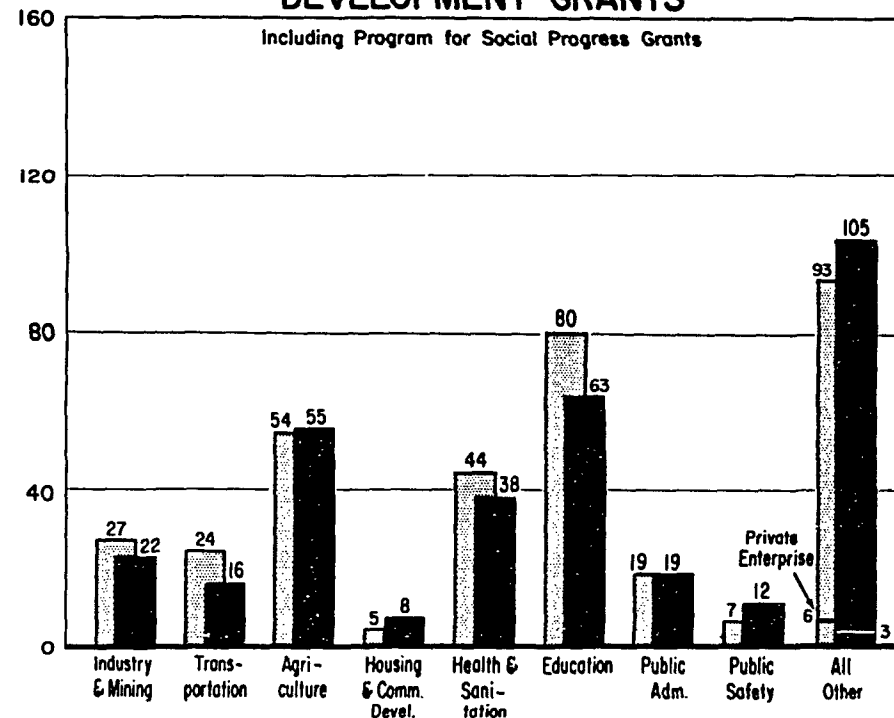
DEVELOPMENT LENDING

Including Program for Social Progress Loans

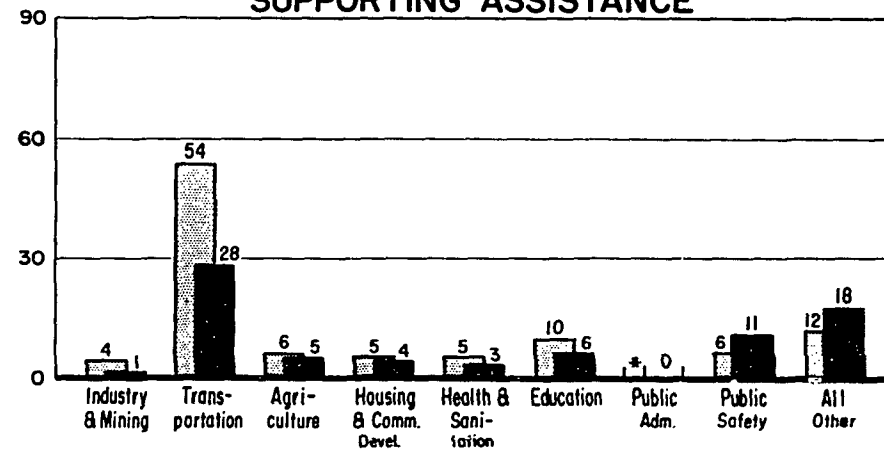


DEVELOPMENT GRANTS

Including Program for Social Progress Grants



SUPPORTING ASSISTANCE



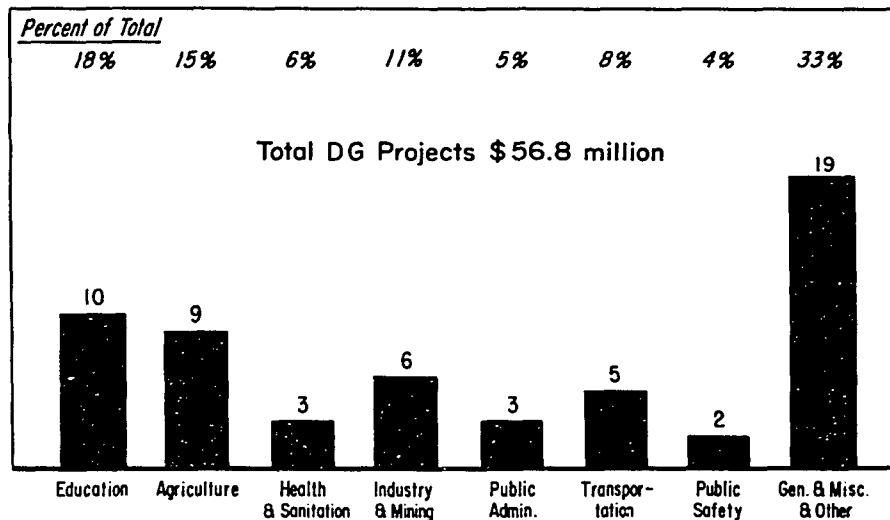
*Less than \$500,000.

DEVELOPMENT GRANTS – FIELD OF ACTIVITY BY REGION,

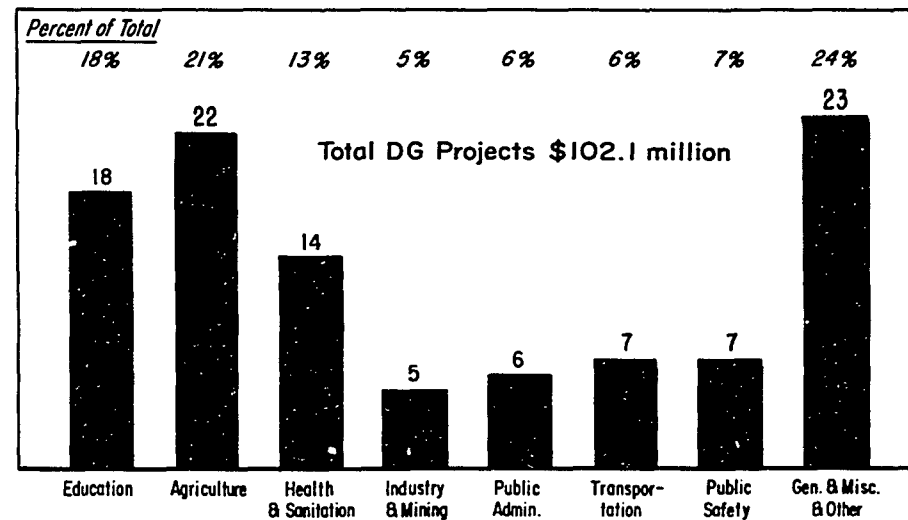
FY 1963 Project Obligations

(Millions of Dollars)

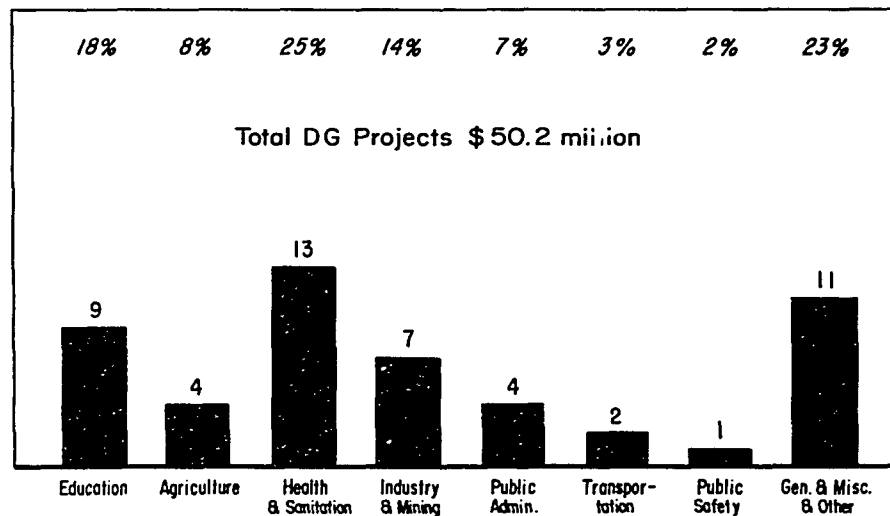
NEAR EAST AND SOUTH ASIA



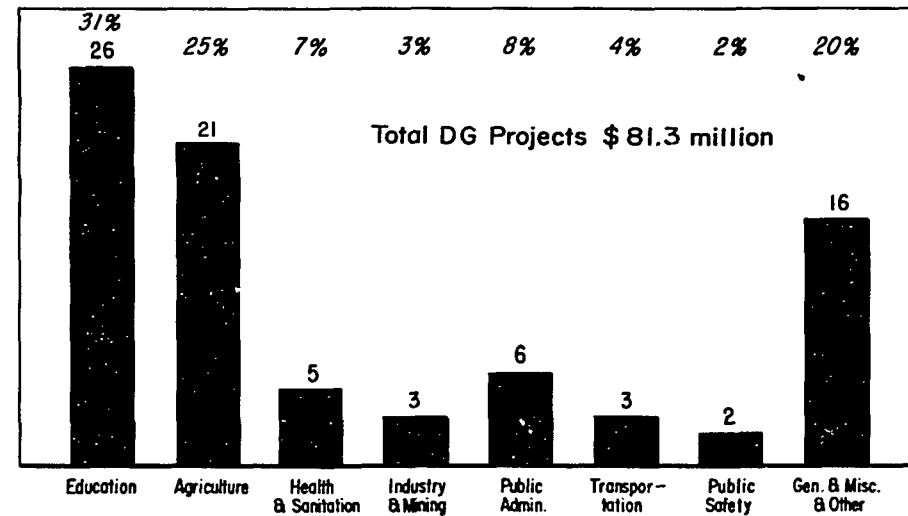
LATIN AMERICA



FAR EAST



AFRICA



AGENCY FOR INTERNATIONAL DEVELOPMENT MANUAL		ORDER NO. 1201.1	PAGE 1
SUBJECT Capital Assistance: Introduction and Definitions	TRANS. LETTER NO. 11:1		EFFECTIVE DATE Sept. 30, 1963
	SUPERSEDES		

I. Introduction

This introductory manual order for Chapter 1200 sets forth the policies and procedures for Capital Assistance. It defines Capital Assistance, and summarizes the basic steps involved in the planning, review, approval and implementation of Capital Assistance Activities.

Successive manual orders in this section describe the statutory and policy requirements applicable to Capital Assistance (M.O.s 1202.1 and 1203.1).

Section 1210 discusses the approach to be followed in identifying capital activities which may merit external financial assistance.

Section 1220 summarizes AID engineering and construction requirements and policies to be taken into account in developing a capital activity, and the technical requirements relating to the operation and maintenance of capital projects.

Section 1230 provides guidance on the role of Missions and the responsibilities of the applicant in preparing an application for capital assistance, including the content of the application.

Section 1240 describes the procedures to be followed in reviewing a capital activity proposal, and considerations to be taken into account in conducting such reviews.

Section 1250 describes procedures for authorizing and announcing approvals of Capital Assistance Activities.

Section 1260 establishes policies and describes procedures for the implementation of capital activities, including the preparation, negotiation and execution of agreements, the preparation and content of implementation letters, and the execution and monitoring of capital activities.

II. Definition of Capital Assistance

Capital Assistance is aid made available through the transfer of financial resources, whether on a loan or grant basis, to establish or expand physical facilities and financial institutions (including financing and feasibility studies for achieving these ends) that contribute to the basic economic development of cooperating countries. Specifically, a capital assistance activity is defined to include:

A. A "capital project", which, in turn, is defined as the construction, expansion, equipping, or alteration of a physical facility or facilities financed by AID dollar assistance of not less than \$100,000 (including related advisory, managerial and training services) and not undertaken as part of a project of a pre-dominantly Technical Assistance character; or

B. An AID-financed feasibility study of a specific potential capital project or of several specific potential capital projects, except such feasibility studies as may be financed as Surveys of Investment Opportunities pursuant to Section 231 of the FAA as amended;

C. AID dollar assistance and any accompanying advisory assistance, to one or more development banks or other intermediate credit institutions.

(For a detailed definition of capital assistance, including a discussion of the distinctions between capital assistance and other forms of assistance, see Annex A to this manual order.)

III. Capital Assistance Process

It is AID policy, with regard to all Capital Assistance Activities whether financed by loan or grant, to assure that the activities are soundly conceived and efficiently implemented. The appraisal, approval and implementation of a capital activity will normally bring to bear knowledge of engineering, economics, finance, law and the political, economic and social conditions prevailing in the cooperating country. The same basic methods of appraisal, approval and implementation will be applied to such activities whether they are financed on a loan or grant basis. Variations of method will be required only by the nature of the activity involved.

A. Identification of Capital Activities

The capital development process begins with the identification of those activities within a cooperating country which may merit external assistance, whether from AID or other sources. The emphasis at this stage is on identifying activities likely to offer the most economical and feasible opportunities for

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fostering the economic development of the cooperating country and for carrying out the assistance strategy of AID in that country. The object is to translate broad development and strategy goals and plans into specific potential activities. Within AID, the primary responsibility for this task is borne by the Missions. M.O. 1211.1 - Planning Capital Assistance: Identification of Capital Activities discusses this phase of the capital development process. M.O. 1212.1 - Planning Capital Assistance: Assistance in the Development of Capital Activities discusses methods available to AID for collaborating with the government or private sector in cooperating countries in identifying and developing capital activities.

Once activities which might merit external assistance have been identified within a cooperating country, focus is directed toward the selection of those which it would be most appropriate for AID to assist. This evaluation is made in accordance with overall statutory and administrative criteria of AID including policy regarding assistance where alternative financing is available from other Free World sources on reasonable terms (see M.O. 1213.1 and Section 1050 on Loan Policies and Procedures). M.O. 1202.1 describes the statutory framework for Capital Assistance Activities; M.O. 1203.1 discusses basic AID policies governing Capital Assistance.

B. Preparation of Applications for AID Assistance

Direct responsibility for the planning and preparation of a capital activity application for AID financing is borne by the prospective borrower/grantee. He must provide supporting data and justification sufficient to demonstrate clearly to the satisfaction of AID the eligibility of the activity for financial assistance under the Foreign Assistance Act of 1961, as amended (FA Act). While AID personnel will assist prospective applicants in the preparation of applications, the AID staff should normally avoid actual preparation of the applications or participation in the underlying planning. Any such participation should be expressly noted in the request for intensive review.

The role of the borrower/grantee in preparing applications for AID financing is discussed in Section 1230. Guidance for the preparation of applications is provided in M.O. 1232.1 (Capital Projects), M.O. 1233.1 (Intermediate Credit Institutions) and M.O. 1234.1 (Feasibility Studies).

The review process has two basic phases: a) preliminary review and b) intensive review. Although these two phases are not always clearly separable, it is useful to distinguish between them in controlling the flow of activities under review and in identifying problems and issues at an early stage of the review process.

C. Preliminary Review

Preliminary review of all applications for Capital Assistance is undertaken by the Mission in the cooperating country, except when the regional Assistant Administrator has determined that it is not feasible for the Mission to assume this responsibility. Such preliminary review is intended to determine whether the proposed activity warrants the commitment of the substantial staff and other Agency resources necessary for a detailed examination of the merits of the proposal. If the Mission concludes that such a detailed examination is warranted, it submits a request for intensive review (IRR) to the regional Assistant Administrator. This request form assists the regional Assistant Administrator in coordinating the review process in AID/W and the field, in determining whether intensive review shall be conducted by a Capital Assistance Committee located in the Mission or in AID/W, in assuring that all appropriate agency staffs are consulted as to the proposed activity at the earliest possible time, and in identifying policy problems and other potential difficulties at an early stage in the review process. The procedures for preliminary review, the considerations to be taken into account at this stage, and the content of the IRR are discussed in M.O. 1241.1 - Capital Assistance: Preliminary Review.

D. Intensive Review

The object of the Intensive Review process is to develop a specific recommendation that AID either provide financing or reject the proposal. The Capital Assistance Committee conducting the Intensive Review normally comprises a Capital Activity Officer, Engineer, Counsel and (a Program Officer when the IR is carried out in the Mission, or a Desk Officer when such review is carried out in AID/W). The Committee examines, in depth, the technical, economic and financial details of the proposed capital activity. In many cases, much of this work will need to be conducted in the country in which the activity, if approved, will be undertaken. The examination may be performed by individuals assigned to the Mission if necessary skills are available, or by outside

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staff temporarily detailed to the Mission for this purpose. The committee is composed of AID/W or field personnel, as determined by the regional Assistant Administrator or his designee.

In the course of the Intensive Review the Committee undertakes thorough, detailed examination of the proposal's acceptability in terms of the relevant statutory criteria (see M.O. 1202.1) applicable AID policies, criteria, objectives and special regional and country considerations. The manner in which these are taken into account in reviewing a particular Capital Activity Proposal is discussed in M.O. 1242.1, paragraph III.E. (see also M.O. 1202.1); M.O. 1203.1; M.O. 1211.1 - Planning Capital Assistance: Identification of Capital Activities; M.O. 1221.1 Capital Projects: Engineering and Construction Considerations and M.O. 1222.1 - Capital Projects: Managerial and Operational Considerations.

The intensive review culminates in the submission to the regional Assistant Administrator of a Capital Assistance Paper recommending that AID finance, or decline to finance, the proposed activity. The regional Assistant Administrator assures that the Capital Assistance Paper is submitted to the Office of Development Finance and Private Enterprise and the Office of Program Coordination in AID/W for comment. Copies of all Papers recommending AID loan financing in excess of \$2.5 million are submitted to the members of the Development Loan Committee. (See M.O. 1251.1 Authorization of Capital Assistance.)

The intensive review process is discussed in M.O. 1242.1.

E. Approval of Capital Activity Financing

Capital Activities involving AID financing of less than \$10 million may be approved by the responsible regional Assistant Administrator, or his designee, unless in his judgment:

- the proposal presents a policy issue not previously resolved through other AID processes;
- the proposal involves a significant deviation from established standards and criteria; or
- unless a member of the Development Loan Committee (DLC), in the case of a loan, requests formal consideration of the proposal by the Committee. In any such case, or if the requested AID financing is for \$10 million, or more, approval authority is vested solely in the Administrator or his Deputy.

The DLC convenes for formal consideration of a Capital Assistance loan proposal when convened by the Administrator a) on his own

notion, or b) at the request of the Assistant Administrator for the initiating regional bureau, or c) at the request of another DLC member.

F. Implementation and Monitoring

After the loan or grant is extended, the principal role of AID in project implementation is to keep the activity under surveillance to assure that physical and financial progress is a) consistent with the plans, schedules and arrangements made to carry out the project; and b) proceeding with due diligence and efficiency in conformity with sound engineering, management, and financial practices. AID also assures that the activity is being implemented in compliance with the terms of the Capital Assistance Agreement and subsidiary documents. The Agency will work directly with the borrower/grantee on any problem affecting the progress of the project. Minimum checks made by AID in monitoring the project include: a) approval of the proposed engineering firm and the contract for engineering and other professional services; b) approval of bidding documents, including plans and specifications; c) approval for award of construction contracts and of the firms to whom the awards are made; d) review of periodic progress reports submitted under the terms of the agreement to assure that implementation is proceeding satisfactorily; and e) site inspection by the Mission and AID/W personnel as appropriate. In addition, AID keeps the covenants contained in the Capital Assistance Agreement under continuing review to assure compliance with all requirements, including those which extend beyond the execution period of the activity. In the performance of these monitoring responsibilities, assumption by AID personnel of the direct implementation responsibilities of the borrower/grantee, or his consulting engineers and technicians, should be avoided. Any objections that AID may have to the manner in which the activity is performed should normally be pursued through the borrower/grantee. M.O. 1264-1 describes the role of AID in monitoring and implementing Capital Activities.

At the same time, it is the aim of AID to cooperate with the borrower/grantee in achieving the objectives of the activity. If the borrower/grantee fails to discharge its obligations, a number of remedies are available to AID. These include a) during the disbursement period, the right to suspend payment and, thereafter, b) the right to require a refund and, c) in the case of loans, the right of acceleration.

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G. Contractual Relationships

The contractual relationships through which Capital Assistance Activities are implemented are between the borrower/grantee and the contractor (or the supplier, in the case of procurement of goods). Normally, AID is not a party to the contracts.

For all engineering and construction contracts, AID must approve both the contractors and the contracts, in order to assure a) that the contractors are competent, b) that the scope(s) or work and terms of the contract(s) are adequate to achieve the desired objectives and c) that the price is reasonable.

See Manual Order's 1443.1 and 1443.2 for discussion of the process and criteria for approving AID financing of engineering and construction contracts.

H. The Capital Assistance Agreement and Implementation Letters

The instruments utilized by AID to achieve the purposes for which a Capital Assistance loan or grant is made are the Capital Assistance Agreement and Implementation Letters.

1. The Agreement provides the legal foundation for a) AID's obligation to finance b) the requirements to be met by the borrower/grantee, and c) the supervisory, and monitoring rights of AID prior to disbursement and during the course of project implementation.

2. One or more Implementation Letters, based on the Agreement, provide the borrower/grantee with detailed information and instructions

as to the methods and procedures to be used in carrying out the activity, including requirements or reports to AID on progress achieved and compliance with applicable requirements.

I. Provisions for Flexibility

The methods, procedures and supporting documentation described above and in succeeding manual orders in this Chapter are those to be utilized, under usual and normal circumstances, in processing and implementing Capital Assistance Activities. Where the country situation or the special circumstances of a particular capital activity make it advisable, different techniques and procedures for implementing and monitoring such activities may be adopted by the regional Bureau as deemed appropriate by the regional Assistant Administrator or his designee. Such techniques and procedures, as necessary for the success of the activity may provide for AID assumption of direct responsibility for one or more implementing actions, or phases or implementation. In such cases, the Bureau should develop in the Capital Assistance Paper a concise implementation plan which describes the technical and management competence which is required but lacking, why it cannot be obtained by the borrower/grantee and specifically the actions of, or phases of, the activity which are proposed for AID direct implementation. Following authorization of the activity for financing under the proposed implementation plan, the Capital Assistance Agreement must be appropriately drawn up to prescribe the necessary implementing arrangements and to reflect the deviations from the norm.

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Definition of Capital Assistance

A. Capital Assistance

Capital Assistance is aid made available through the transfer of financial resources, whether on a loan or grant basis, to establish or expand physical facilities and financial institutions (including financing of feasibility studies for achieving these ends) that contribute to the basic economic development of cooperating countries. Specifically, a capital assistance activity is defined to include:

1. A Capital Project which, in turn is defined as the construction, expansion, equipping, or alteration of a physical facility or facilities financed by AID dollar assistance of not less than \$100,000 (including related advisory, managerial and training services) and not undertaken as part of a project of a predominately Technical Assistance character; or
2. An AID-financed feasibility study of a specific potential capital project or of several specific potential capital projects, except such feasibility studies as may be financed as Surveys of Investment Opportunities pursuant to Section 231 of the FA Act, as amended; or
3. AID dollar assistance, and any accompanying advisory assistance, to one or more development banks or other intermediate credit institutions.

In addition to the activities clearly encompassed under paragraph A.1 above, capital equipment imports (e.g., machine tools and locomotives) in excess of \$100 thousand may be properly categorized as a capital project where AID is significantly concerned with the operation of the facility, system or institution for which the imports are intended. For example, provision of road repair equipment or a fleet of trucks for a highway maintenance department should be classed as a capital project under such circumstances. In marginal cases where there is doubt as to the proper category for a proposed activity, the Mission should seek guidance from the responsible regional Assistant Administrator.

The term Capital Assistance does not include:

1. Dollar support of surveys or studies which do not meet Capital Assistance criteria for feasibility studies (item two above) (see M.O. 1301.1 - Technical Assistance Activities: Definition and Major Processes and M.O. 1523.1 - Investment Surveys); or
2. Projects financed exclusively under P.L. 480, Title I, Section 104(e) local currency (Cooley) loan and Section 104(g) economic development loans (see M.O. 1521.1 - Private Enterprise, General); or
3. Investment guarantees authorized under Title III of the FA Act, as amended (see M.O. 1522); or
4. Projects financed exclusively from counterpart funds (see M.O. 1513 - Local Currency Activities); or
5. Commodity Program assistance (see M.O. 1101 - Program Assistance, General); or
6. Advice to participating countries or other borrowers or grantees, not directly related to AID-financed capital activities, regarding procurement, engineering or management (see M.O. 1301 - Technical Assistance Activities, Definition and Major Processes).

B. Distinction Between Capital Assistance and Program Assistance

Program Assistance is any activity of a non-project nature undertaken to provide resources to a cooperating country, under circumstances where the totality of the resources made available, rather than their particular use, constitute the primary U.S. concern.

The purpose of the assistance, in the sense of the focus of agency attention and degree of U.S. control over the use of the particular resources made available, is the critical factor in distinguishing between program assistance and capital assistance.

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Where, for example, the primary U.S. interest is in construction of a physical facility, even one financed mainly or wholly with local currencies, dollars made available for that purpose would not be deemed "program assistance", even though used to finance commodity imports for general consumption within the cooperating country. In such cases, the proposal for AID financing of the physical facility would be documented, reviewed and approved in accordance with the procedures prescribed in this chapter (1200). On the other hand, where the primary purpose of the assistance is to meet a cooperating country's balance of payments or budgetary needs, or to achieve indirectly a policy purpose, such dollar assistance is program assistance. It is documented, reviewed and approved in accordance with the procedures prescribed in Chapter 1100, notwithstanding the fact that the local currencies thereby generated may ultimately be used to finance technical assistance or capital projects in the cooperating country.

Gray area cases, in which categorization will be difficult, are inevitable. AID may have a multiplicity of objectives in providing assistance, and it may be difficult to determine in a particular case whether project or program objectives, analysis and implementation processes are more appropriate. The U.S. motivation may be both to fill a balance of payments gap by providing needed commodity imports and also to channel local currency into priority projects. In these marginal cases, the categorization of assistance is determined by the responsible regional Assistant Administrator, according to the foregoing criterion and with the advice of interested staff offices and the Mission concerned. Whichever the choice, all of the relevant policies, criteria, documentation, review, approval and implementation processes prescribed for that form of assistance will apply.

The nature of the commodities to be financed is not the determining factor. Capital equipment may well be included in program assistance, e.g., in an equipment loan where AID is interested in supporting a sector or budget rather than in reviewing specific uses or beneficiaries. On the other hand, raw materials or operating supplies may be provided under project assistance when AID is concerned with the specific uses to which they will be put, e.g., fertilizer in support of a new irrigation or extension system.

Missions should propose whichever type of analysis they consider most appropriate to a particular proposed activity. In doubtful cases, however, they should also provide information relevant to the alternative treatment. For example, a program assistance proposal for an equipment loan should indicate what the equipment will be used for; and, a project proposal involving operating supplies should relate the requirements to the country's import financing requirements and to the budget of the ministry concerned or to the payments by the recipients.

C. Distinction Between Capital Assistance & Technical Assistance

Technical assistance is the process through which AID assists cooperating countries in developing human skills and attitudes and in the creation and support of the institutions necessary for social, economic and political growth and development.

Technical assistance usually takes the form of advisory services, including the provision of professional personnel (AID, other U.S. agencies, or contract personnel), and of training participating country nationals in the U.S. or selected third countries. For administrative purposes, technical assistance is defined to include all AID dollar supported-project activities, loan or grant, except those within the adopted definition of "capital assistance" (see above) and except certain "special activities", primarily inter-regional, (See Chapter 1500). Thus, as used in the manual orders and for purposes of AID procedures established in Chapter 1300, technical assistance includes:

1. AID dollar-financed engineering, economic or management studies or surveys, undertaken to identify future projects, including prospective capital projects, (e.g., a general survey of the transportation needs of a cooperating country);
2. AID dollar-financed construction, expansion, equipping or alteration of a public sector physical facility (e.g., an agricultural research laboratory), in which the AID investment is less than \$100,000;
3. AID dollar-financed construction, expansion, equipping or alteration of a physical facility, regardless of dollar cost where this activity, as determined by the regional Assistant Administrator, directly supports or is an integral part of a project essentially technical assistance in character.
4. AID-financed engineering or management services to a cooperating country government agency administering a non-AID-financed capital construction program (e.g., the services of a power consultant to a country ministry.)

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Training, managerial and other advisory services, directed toward the realization or efficient utilization of a capital assistance activity should normally be processed, approved and administered as part of such activity rather than in accordance with the procedures prescribed for Technical Assistance in Chapter 1300.

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THE TOOLS OF AID -- ASSISTANCE TO PRIVATE ENTERPRISE

Reference Reading:

Memorandum: Aids to Business (AID Publication)^{1/}

1/Included in your orientation kit.

LECTURE OUTLINE

- I. The Private Enterprise Program - A Two-Pronged Approach
 - A. Local Institution Building and Investment Climate
 - 1. development banks
 - 2. industrial corporations and investment promotion centers
 - 3. investment laws and taxes
 - 4. productivity centers
 - 5. industrial districts
 - 6. vocational and participant training
 - B. Promotion of Private Foreign and Local Investment
 - 1. investment surveys
 - 2. Dollar and Cooley loans
 - 3. investment guaranties
- II. Role of the Private Enterprise and Industry Officers in the Field
 - A. Developing a Strategy for Private Sector Development
 - B. Reporting Investment Opportunities and Encouraging Joint Ventures
 - C. Representing AID Local Business Community
- III. Need for Considerable Technical Assistance in Formulating Favorable Projects, and Opportunity for Mission Personnel to Constantly Assist in Building Strong and Effective Industrial Institutions

Other Relevant Reading:

Joint International Business Ventures, edited by Wolfgang G. Friedman
and George Kalmanoff

Managers for Small Industry, Joseph E. Stepanek

American Management Abroad, George D. Bryson

NOTES

INTERMEDIATE CREDIT INSTITUTIONS AUTHORIZATIONS OF DOLLAR LOANS
(Thousands of Dollars)

BY AREAS BY FISCAL YEARS

As of September 30, 1963	TOTAL	NESA	LA	FE	AFE
<u>Total Authorizations</u>	<u>\$399566</u>	<u>\$127200</u>	<u>\$230700</u>	<u>\$23166</u>	<u>\$18500</u>
FY 1958	14883	14200	-	683	-
1959	39683	20200	5000	12483	2000
1960	46500	36500	-	10000	-
1961	106400	22900	71500	-	12000
1962	69500	30000	37500	-	2000
1963	95500	-	93000	-	2500
1964	27100	3400	23700	-	-

BY CATEGORIES - BY FISCAL YEARS

As of September 30, 1963	TOTAL	DEVELOPMENT BANKS	HOUSING	AGRICULTURAL CREDIT
<u>Total Authorizations</u>	<u>\$399566</u>	<u>\$189866</u>	<u>\$125100</u>	<u>\$84600</u>
FY 1958	14883	14883	-	-
1959	39683	39683	-	-
1960	46500	46500	-	-
1961	106400	34900	44500	27000
1962	69500	37000	2500	30000
1963	95500	13500	58100	23900
1964	27100	3400	20000	3700

STATUS OF SUB-LOANS COMMITTED AS OF SEPTEMBER 30, 1963

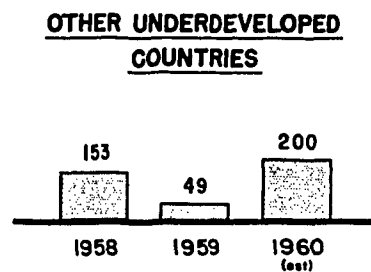
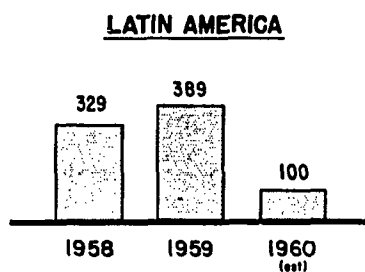
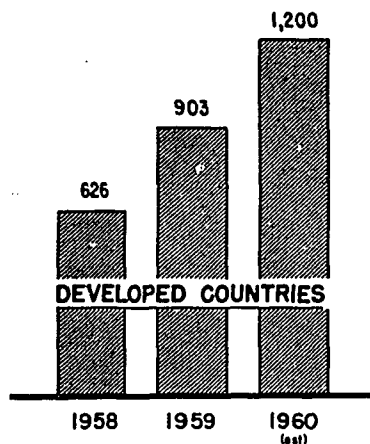
	AID Loans Authorized (in \$000's)	Sub-loans Committed	Amount of Sub-Loans (in \$000's)	% of Loan Committed
Industrial Development Banks (30)	\$189,866	2,383	\$109,916	57.9
Housing Institutions (12)	125,100	19,384	25,302	20.2
Agricultural Credit Banks (9)	84,600	29,567	16,128	19.1
	<u>\$399,566</u>	<u>51,334</u>	<u>\$151,346</u>	

NEW U. S. DIRECT PRIVATE INVESTMENT

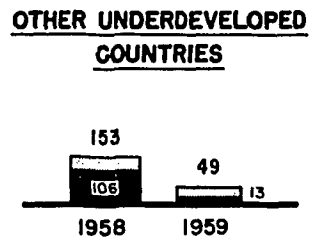
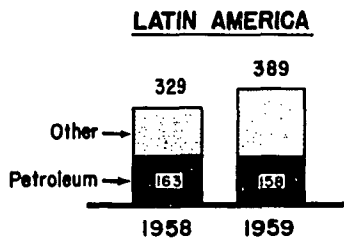
(Net Excl. Reinvested Earnings)

(Millions of Dollars)

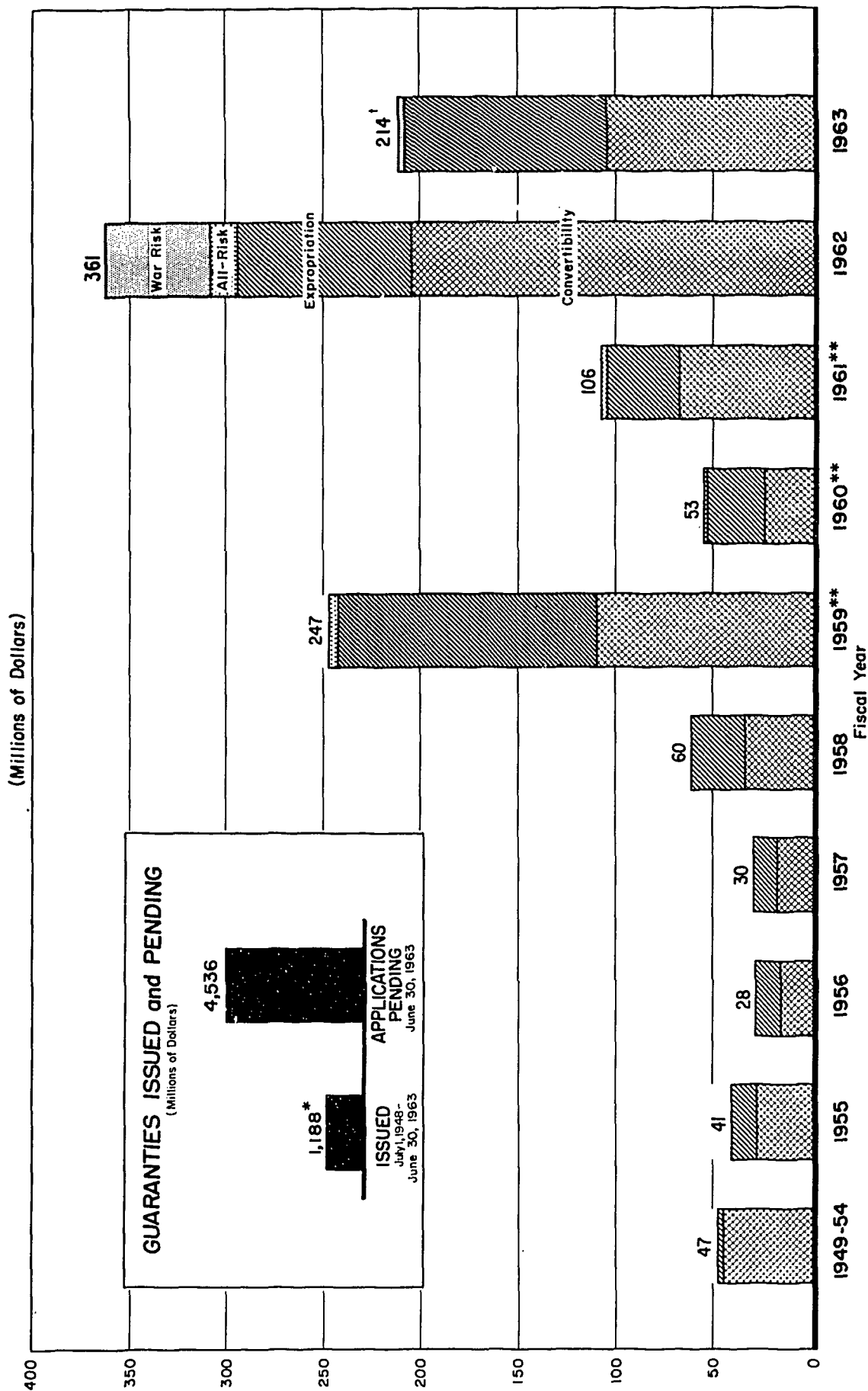
THE DIRECTION OF U.S. INVESTMENTS



Much of New U.S. Investment in the Underdeveloped Countries is in Petroleum



\$214 MILLION IN INVESTMENT GUARANTIES ISSUED IN FY 1963; APPLICATIONS PENDING TOTAL MORE THAN \$4.5 BILLION Investment Guaranties Issued thru June 30, 1963



* As of June 30, 1963, the maximum liability was \$884 million (a total of \$304 million having been terminated or reduced).

** War Risk guaranties issued in FY 1959 - 1961, not shown separately, totalled \$2 million. [†] Includes \$1,260 thousand for the first guaranty issued for Extended Risk - Latin America Housing not shown separately.

THE TOOLS OF AID -- TECHNICAL ASSISTANCE

Reference Reading:

"Human Resources, Institutions, and Technical Assistance", by
John H. Ohley^{1/}

^{1/}Included in this handbook.

LECTURE OUTLINE

- I. Definitions of Technical Assistance
- II. Lessons from History
 - A. Program Approach
 - B. Institutional Factors
 - C. Multiplier Effects
 - D. Appropriate Technical Message
 - E. Appropriate Communication Method
 - F. Anticipation of Side Effects
- III. Technical Assistance in a Goal-Plan
 - A. The Application of These Lessons in the Assistance to the Indus Valley Scheme as Programmed by USAID/Karachi
- IV. Issues Arising in Coordinated Programming
 - A. Policy Objectives and Program Goals
 - B. Program Scope
 - C. Kinds of Aid
 - D. Bi-Focal Planning
- V. Role of Technical Assistance in Countries at Different Stages of Development
- VI. Providing Technical Assistance: Technical, Program, Administrative, and Personal Considerations
 - A. Identification of Need
 - B. Setting Priority
 - C. Design of Activity

- D. Implementation
- E. Evaluation of Progress
- F. Follow-Up Activities

Other Relevant Reading:


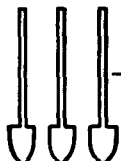





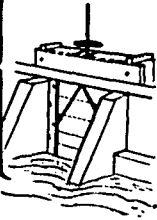






The Role of Technical Assistance in Foreign Aid (AID Reprint)
Working with People, Examples of U.S. Technical Cooperation
U.N. Conference on Science and Technology, Vol. X: "International
Cooperation and Problems of Transfer and Adaptation"
U.N. Conference on Science and Technology, Vol. XI: "Training of
Scientific and Technical Personnel:
Experience of Private Enterprise in Manufacturing Development in
Underdeveloped Countries (ICA Publication)
Cultural Patterns and Technical Change, Margaret Mead
The Nature of the Non Western World, Vera Micheles Dean

NOTES

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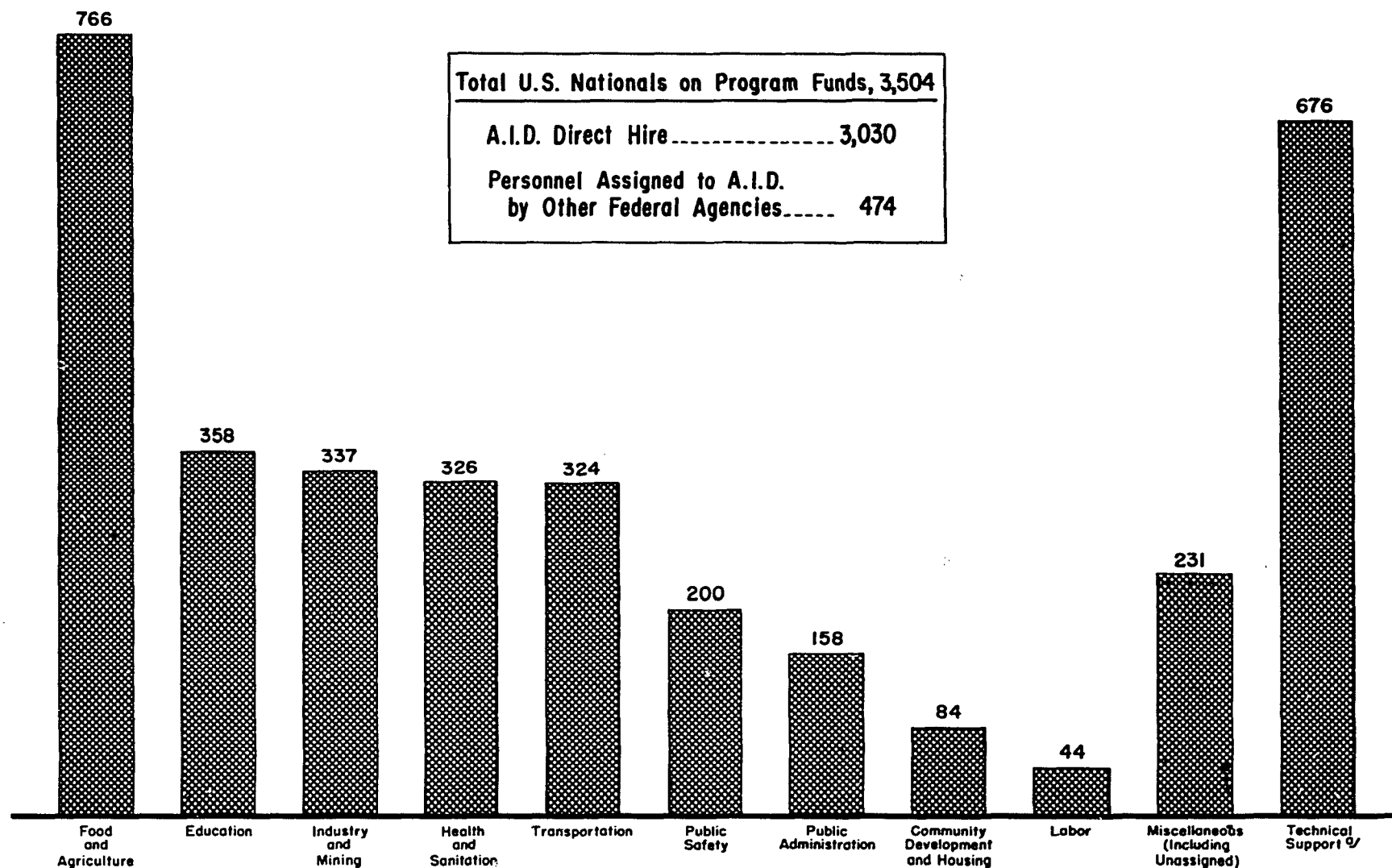
VILLAGE X IRRIGATION PROJECT

Several Types of AID Assistance are Possible

CY	PARTICIPANTS	TECHNICIANS	CONTRACTS	COMMODITIES	LOCAL CURRENCY	FY
1963		Irrigation Engineer 		Shovels 	Local Wages 	1963
1964			Construction Supervision 			1964
1965	Training in Hydrology 	Farm Irrigation Specialist 		Gates and Locks 		1965
1966						1966
1967						1967
1968						1968
	PARTICIPANT ONLY	TECHNICIAN ONLY			LOCAL CURRENCY	
	TECHNICAL COOPERATION					
	SPECIAL ASSISTANCE AND DEFENSE SUPPORT					

3,504 TECHNICIANS WORKING OVERSEAS ON A.I.D. PROGRAMS ARE ASSIGNED TO PROJECTS IN VARIOUS FIELDS OF ACTIVITY

U. S. NATIONALS OVERSEAS ON PROGRAM FUNDS AS OF JUNE 30, 1963

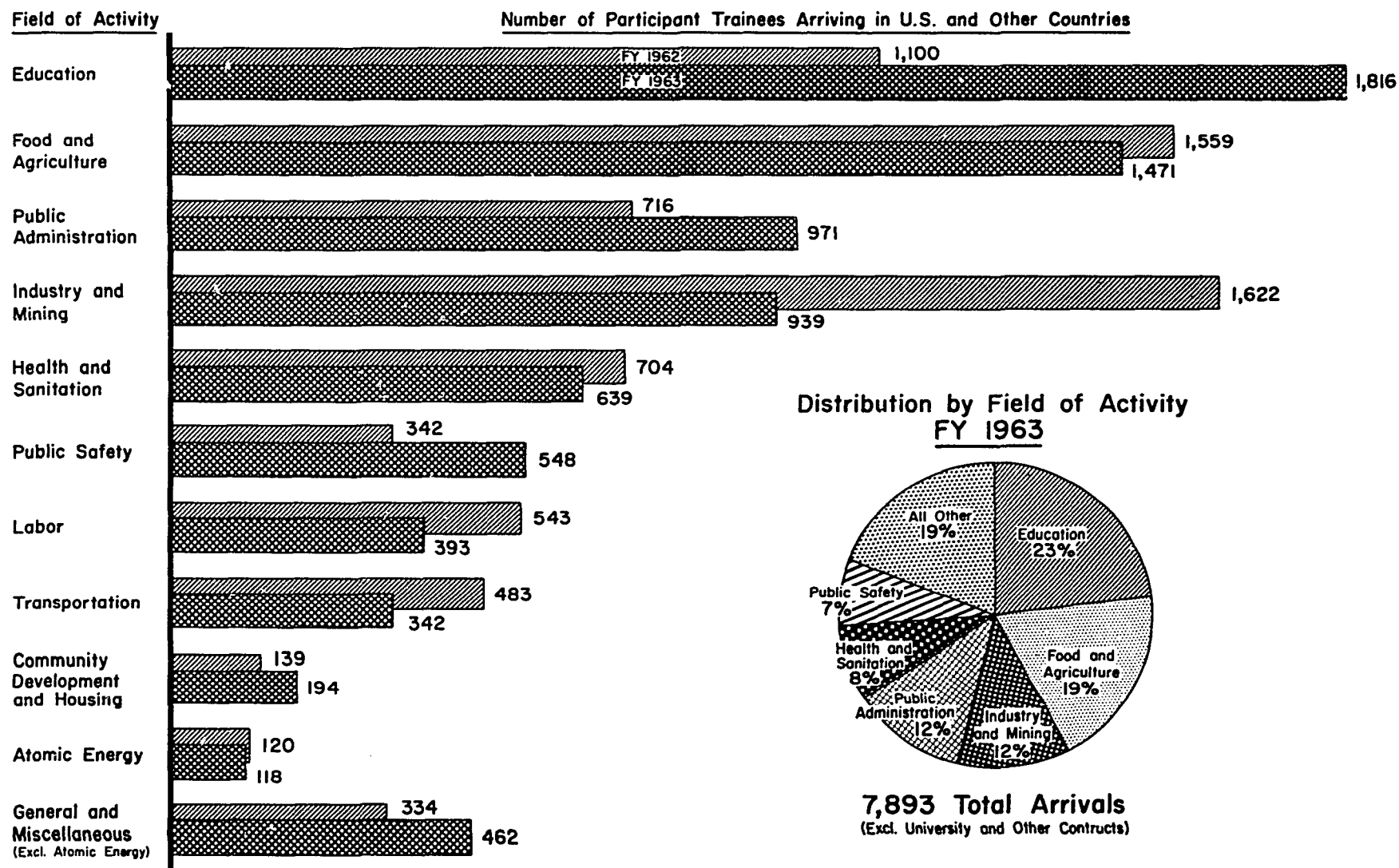


Note: Data Exclude Consultants paid from program funds.

9/ Represents Technical Support personnel not identified with a particular field of activity.

PARTICIPANT ARRIVALS IN EDUCATION, PUBLIC ADMINISTRATION, AND PUBLIC SAFETY UP SHARPLY IN FY 1963

PARTICIPANT TRAINEE ARRIVALS, FY 1962 vs FY 1963



Note: Data exclude arrivals in U.S. under University and other contracts for which information by field of activity is not available.

There were 459 such participant arrivals in FY 1962 and 422 in FY 1963. Distribution of FY 1962 participant arrivals for training in Lebanon partially estimated on percentage distribution of FY 1961 arrivals.

HUMAN RESOURCES, INSTITUTIONS,
AND TECHNICAL ASSISTANCE

by

John H. Ohly

The most serious obstacle to growth in most less developed countries lies in the inability of their people effectively to utilize the resources at their disposal. This inability derives from the prevalence of customs, habits of work and thought, motivations, attitudes, and value systems which are often inconsistent with the requirements of a modernizing society; from the low level of skill, the paucity of well-educated individuals, and deficiencies in indispensable knowledge; and from the absence, or the inadequacy, of the institutions that are required to organize, integrate, and conduct the activities of the society. In short, the human resources and institutions of the country are too underdeveloped to carry out the task of modernization.

An important, and perhaps the most important, purpose of foreign aid is to assist other societies progressively to remove these human and institutional deficiencies--to help them to improve the capabilities of their citizens and to create the governmental, educational, and other societal institutions upon which their political, economic, and social development depends. Although such assistance can be extended in a number of ways, its end-results are always in the first instance intangible, rather than tangible, changes in the character of the receiving society and its people--new methods of thinking, altered work habits, a higher level of popular knowledge, improved skills, the availability of more information, the acquisition of different values, new or improved governmental and non-governmental organizations, and other transitions in the society's general process of operation. It is only as such newly acquired assets are actively employed that tangible manifestations of these changes appear.

The essential ingredient of aid which is so purposed is the effective communication to the receiving country of knowledge, information, ideas, values, and experience which are possessed by the aid giver. This process, which can broadly be described as teaching or training, by its nature normally involves association between individuals in both cultures. Although the process may, and should often, capitalize on such media of communication as books, television, radio, and various forms of art, and can be facilitated by demonstration equipment and the like, the transfer of intangibles from a person in one society to a person in another society, and the effective use thereof by the transferee, are the core of the process. This transfer can take place either within or without the benefiting country--through a donor's sending qualified teachers, trainers, or advisors to the latter or by bringing

personnel of the latter for education or training in the donor's country or some third country. It can be accomplished, depending on the circumstances, through any of the traditional methods by which two individuals communicate-- through formal instruction, advice, example, demonstration, on-the-job training, etc.

Assistance of this general nature has usually been called "technical assistance" or "technical cooperation," and for over ten years the American aid legislation contained a specific category of aid appropriation which carried one of these labels and which rose from an initial amount of \$13 (?) million in FY 1950 to \$150 (?) million in FY 1961, the last year in which assistance of this character was specifically segregated in aid category with such a title. These amounts are exclusive of separately appropriated funds (approximately \$35 (?) million in FY 1961) to cover U. S. contributions to the technical assistance activities of several international organizations, primarily the United Nations, its specialized agencies, and the Organization of American States. Such funds were used primarily to finance five types of activities: (1) the sending of U. S. technicians abroad; (2) the training of foreign nationals in the United States or third countries (commonly referred to as "participant training"); (3) the provision of demonstration supplies, books, and other teaching equipment required by the American technician as teaching aids; (4) the very limited underwriting of the costs of certain local governments in performing tasks incident to the receipt of such assistance; and (5) contracts with American institutions, and principally with American universities and voluntary agencies, to send technicians abroad or to provide training in their facilities.

The size of the annual technical assistance appropriation was not, however, a full measure of American governmental assistance to the development of the human resources and institutions of other nations. Economic assistance, and especially project type economic assistance, frequently carried a necessary and an inseparable technical assistance component on which it would be difficult to place any specific monetary value. An effective industrial, irrigation, or transportation project almost invariably requires teaching and training in the process of its execution, and the cost thereof has frequently been treated as a cost of the project rather than separately charged to technical assistance. Much more important, however, is the fact that the real effectiveness of technical assistance has often been dependent upon the availability of other forms of assistance. This dependence has taken several forms.

The mere acquisition of knowledge or skills by the handful of individuals in another society whom a foreign technician can reach may be of little benefit unless such knowledge and skills can be effectively used by them or recommunicated on a vast scale to others who can in turn put

such knowledge and skills to productive use. But the process of re-communication or effective use may require expenditures by a local government which are far beyond its presently available means. Such expenditures may be needed for the construction of schools in which teachers trained through technical assistance may teach others or for the payment of salaries of a greatly enlarged teacher force. They may be needed in order to provide clinics, hospitals, and medical supplies that will enable medical personnel to apply their newly acquired skills for the benefit of the population, or for the acquisition of fertilizer, seeds, and other agricultural farm equipment, and the support of extension and farm credit systems, to make use of and widely disseminate, knowledge on improved agricultural practices and techniques conveyed by means of technical assistance. In many instances American economic assistance has been provided to enable a less developed nation to meet the local or foreign exchange costs involved in extending the benefits from technical assistance to an ever-increasing number of its people.

Another form of assistance in the development of human resources and institutions to which we may not have given adequate attention is project type economic assistance financed not with dollars but grants or loans of local currencies generated by PL 480. Too frequently we have treated such projects as matters concerning only the cooperating country rather than recognizing that the effective and efficient administration of such projects is equally important to our long-range objectives as those financed with dollar loans. While a compelling reason for requiring adequate technical controls and inspection is to assure proper administration, such controls and inspections in themselves help develop human resources and institutions.

The frequent dependence of technical assistance upon the concomitant availability of commodity and capital assistance was among the reasons for the establishment by the Act for International Development of 1961 of the new category of aid which is known as "development grants," and for the simultaneous elimination of "technical cooperation" as a separate form of assistance. Development grants were to be available "to promote the economic development of less developed friendly countries and areas, with emphasis upon the development of human resources through such means as programs of technical cooperation and development." Moreover, in recognition of the equal dependence of capital assistance upon the availability of human resources capable of using such assistance effectively, the 1961 Act provided that "in countries and areas which are in the earlier stages of economic development, programs of development of education and human resources through such means as technical cooperation shall be emphasized, and the furnishing of capital facilities for purposes other than the development of education and human resources shall be given a lower priority until the requisite knowledge and skills have been developed."

In fiscal years 1962 and 1963, Congress appropriated \$375 million and \$381 million for development grants. The request for FY 1964 is \$393 million. These funds will be used to finance the sending of U. S. technicians overseas, the training of individuals from less developed countries in the United States and third countries, contracts with American institutions for the extension of technical assistance, and the provision of capital equipment, commodities, and other services largely to support the development of human resources and societal institutions necessary to support social and economic growth.

AGENCY FOR INTERNATIONAL DEVELOPMENT MANUAL		ORDER NO. 1301.1	PAGE 1
SUBJECT Technical Assistance Activities; Definition and Major Processes		TRANS. LETTER NO. 12:1	EFFECTIVE DATE September 9, 1963
		SUPERSEDES	

I. Introduction

A. Chapter 1300 establishes AID policies and procedures for Technical Assistance Activities arranged under the following section headings:

- 1300 - Technical Assistance Activities, General
- 1310 - Planning Technical Assistance: Pre-Planning Considerations; Economic, Social and Political Considerations; Managerial Considerations
- 1320 - Description, Submission, Review and Approval of Technical Assistance Projects
- 1330 - Project Agreements; Authorizations, Negotiation, and Execution
- 1340 - Implementation Methods and Criteria
- 1350 - Contract Service Actions (PIO/T)
- 1360 - Direct Hire Personnel Actions (SPAR)
- 1370 - Commodity Procurement Actions (PIO/C)
- 1380 - Participant Training (PIO/P)
- 1390 - Reporting and Evaluation

B. Programming guidance for Technical Assistance is provided in Manual Orders 1024.1 - The Connection Between Overall Objectives and Specific Projects; 1024.2 - The Goal Plans (GP) Content of a Goal Plan; and 1012.2 - AID Assistance Instruments: Development Grants and Technical Cooperation. Sector and Multi-Sector Guidance is contained in Chapter 1600 except for Public Safety which is covered in Section 1540 and the Use of Local Currencies, in Section 1510.

II. Definition

A. Technical Assistance is the process through which AID assists cooperating countries to develop human skills and attitudes and to create and support the institutions necessary for social, economic and political growth and development. (See M.O. 1303.1 - The Objectives of Technical Assistance.)

B. Technical Assistance most commonly takes the form of advisory services, including the provision of professional personnel (AID, other U.S. agency, or contract personnel), and of training cooperating country nationals in the U.S. or selected third countries. For administrative purposes, a Technical Assistance Activity is defined to include all AID dollar-supported project activities, loan or grant, except those within the adopted definition of a Capital Assistance Activity (see M.O. 1201.1 - Capital Assistance Activity, General) and except Special Activities (see Chapter 1500 - Special Activities and Procedures). AID Technical Assistance projects may be directed toward development objectives in the public or the private sector of the cooperating country. Thus, as used in these manual orders and for purposes of the procedures herein established, technical assistance is broadened to include:

1. AID dollar-financed engineering, economic or management studies or surveys undertaken to identify future projects, including prospective capital projects, (e.g., a general survey of transportation needs in a cooperating country);

2. AID dollar-financed construction, expansion, equipping or alteration of a public sector physical facility (e.g., an agricultural research laboratory), where the AID investment is less than \$100,000;

3. AID dollar-financed construction, expansion, equipping or alteration of a physical facility, regardless of dollar cost, where this activity, as determined by the regional Assistant Administrator, directly supports or is an integral part of a project of essentially technical assistance character.

4. AID dollar-financed engineering or management services to a cooperating country government agency administering a non-AID-financed capital construction program (e.g., the services of a power consultant to a country ministry).

C. Excluded Activities

Certain advisory services and studies, closely related to capital assistance, have been categorized as Capital Assistance Activities (see M.O. 1201.1 - Capital Assistance Activity, General) and are excluded from the present definition of Technical Assistance: Training, managerial and other advisory services, directed toward the realization, or efficient utilization,

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of a Capital Assistance Activity should normally be processed, approved and administered as a part of the pertinent Capital Assistance Activity, rather than according to procedures prescribed in this chapter for Technical Assistance. Other excluded activities are: Inter-regional projects; Research projects; Investment Guaranties; Investment Surveys under Section 231 of the Foreign Assistance Act (see M.O. 101); Local Currency Activities where no AID dollar input is involved (see M.O. 1513 - Local Currency Activities) and Cooley loans (M.O. 1526.1); Public Safety (M.O. 1540); and certain other programs of a nonregional character which have been categorized as Special Activities (see Chapter 1500, Special Activities and Procedures, for the complete listing).

II. Technical Assistance, Major Processes

A. Succeeding sections of this Chapter describe the processes whereby AID technical assistance projects are programmed, planned, approved, funded, mutually agreed upon in bilateral project agreements, implemented and evaluated. A capsule view of these processes is provided below.

B. The timing of most AID technical assistance procedures reflects the requirements of the annual Congressional authorization appropriation system. Such timing requires the regional bureaus to maintain procedural flexibility with regard to early (preoperational year) and multivear project approval.

1. Program Planning

a. Goal Plans and Separate Activities are proposed by the Mission, normally as part of the annual program submission, and within the framework of the Country Assistance Strategy Statement (CASS) approved by the AID Administrator. (See M.O. 1022.2 - Scope and Content of the Long-Range Assistance Strategy (LAS) - for a description of the programming procedures relating to the Long-Range Assistance Strategy and M.O. 1023.1 for similar guidance on the Country Assistance Program (CAP). See M.O. 1024.1 - The Connection Between Overall Objectives and Specific Projects - for discussion of the nature, purpose and content of Goal Plans.)

b. A separate Activity Description is submitted for each active or proposed Technical Assistance project, describing the project in the required detail and setting for the project justification, i.e., the relationship of the project to U.S. objectives or to a Goal Plan of which the project forms a part. The Activity Description includes:

(1) A Form E-1 summary budgetary table;

(2) An Activity Target statement, identifying the expected results, qualitatively and quantitatively, if feasible;

(3) A Course of Action narrative section, describing the major actions planned to achieve the target, (i.e., personnel, supplies and equipment, contract services, physical facilities, etc.);

(4) A Progress to Date statement, required only for continuing projects, and

(5) A Funding Requirements section, showing cost estimates by project element for the Operational and Budget Years (i.e., technicians, participants, contract services, commodities and Other Costs of the project.) This section should identify local currencies for which AID has administrative and/or approval responsibility, contributions of the cooperating country from other sources, and financing from other donors. If approval has been provided for the local currencies required by AID or the cooperating country in an earlier action this should be indicated. (See also M.O. 1021.2 - General Aspects of the Programming System: Principles Underlying the System.)

2. Program Review and Approval

a. The annual submission of Activity Descriptions to AID/Washington normally takes place in September or October. Data thus provided are used for the development of estimates used in the Bureau of the Budget submission for the President's Annual Budget Message to the Congress, the Congressional presentation supporting the requested foreign economic assistance authorization and appropriations legislation, and the AID/Washington review and approval process.

b. Washington approval of proposed technical assistance projects, including new projects where proposed, is given to the Mission by AID/W in the quarter year preceding the new operational year, to the extent feasible. Approvals at this time are, necessarily, "in substance" and are subject to future availability of funds.

c. Approval by the Administrator is required for projects which, in the judgment of the responsible regional Assistant Administrator, either involve a potential U.S. commitment in excess of prescribed amounts or present significant political, economic or strategic issues not previously resolved. All other projects are approved by the regional Assistant Administrator or his designee. The regional Assistant Administrator may delegate this approval authority or any part thereof.

d. Selected projects are presented

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for formal regional bureau consideration at hearings which may be chaired by the regional Assistant Administrator and in which concerned AID offices or staffs participate. This procedure is designed to assure formal consideration of significant projects at the Assistant Administrator level. It is analogous to the regional bureau practice for the review of capital projects.

e. The advice of substantive project approval, subject to fund availability, which is given by AID/W to the Mission may be subject to conditions or limitations imposed by the approving authority. By providing the approval, qualified approval, or disapproval during the last quarter of the fiscal year prior to the beginning of the Operational Year, the Mission will be able to proceed immediately on approved projects with the completion of all necessary preagreement arrangements, including the development of technical procurement specifications, and to reach understandings (short of implied commitments on U.S. assistance) with the cooperating country. Such understandings should embrace the series of complementary actions to be undertaken by the cooperating country, whose fiscal year may not be coterminous with that of the U.S.

f. Substantive approval may be granted by AID/W for the anticipated life of the project, subject to comprehensive AID/W reassessment at least every three (3) years of the objectives, progress and effectiveness of such projects. Such approvals are for intra-Agency purposes only and do not constitute authority for multiyear obligation or commitment to the cooperating country. Further Washington review during the approved period is concerned with 1) any significant deviation from original projections, as the project develops; 2) satisfactory progress; 3) any material change in the country situation; and 4) funding considerations.

Regardless of the character and extent of the AID/W approval, the Mission Director is responsible, in the first instance, for continuing project surveillance and evaluation to assure 1) satisfactory progress and prospects, 2) continuing consistency with U.S. objectives, and 3) that it will be possible to complete the project or transfer continuing responsibility to the cooperating country according to plan and on schedule. The Mission Director's responsibility accordingly includes that of proposing such changes in the project as, in his judgment, may be necessary to achieve the intended results.

3. Funding

Missions receive allotments of funds from AID/W for technical assistance

projects as early as possible following congressional appropriation action (including enactment of continuing resolutions) and necessary adjustments in AID/W of previously proposed country program levels. The estimated cost of projects already substantively approved by AID/W is taken into account in determining allotment amounts.

4. Project Execution

a. Upon receipt of substantive approval and allotment of funds from AID/W, Missions should proceed, wherever feasible, with further negotiations and all other necessary steps requiring attention prior to execution of the Project Agreement. Execution of the Project Agreement should take place as soon as possible after Missions receive notification of allotment of the required funds. Early substantive approval of projects by AID/W is intended to expedite the implementation process, and to mitigate the peaking of Mission obligations and workloads during the last quarter of the fiscal year.

b. Procedures relating to the obligation of funds for technical assistance projects (see M.O. 1332.1 - Technical Assistance: Project Agreement - Scope, Execution and Revision) and to the issuance of Project Implementation Orders (PIOs) concurrently with the execution of the Project Agreement are derived from prior Agency practice. Project Implementation Order instruments will continue to be used to authorize procurement actions: commodities (PIO/C); contract services (PIO/T) and participant training (PIO/P).

c. Missions are authorized and encouraged to submit draft PIO/Ts to AID/W following substantive project approval as far in advance of the project agreement stage as possible (see M.O. 1352.1 - Preparation of the Project Implementation Order - Technical Services (PIO/T)). Such drafts should include full details of the work to be done including the required technician services, participant training, commodity elements and other items needed to complete the actions contemplated during the period to be covered by the financing, in order to prevent costly delays in the implementation process.

5. Reports and Evaluation

The two basic types of information required by AID/W for technical assistance reporting and evaluation purposes are the Progress to Date section of the annual Activity Description, briefly described in M.O. 1322.1 - Technical Assistance Activity Description, Content and Submission and the Project History and Analysis Report, (see M.O. 1392.1 - Preparation and Submission of the Project History and Analysis

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Report) required at three year intervals for continuing projects and upon project termination. Together, these reports provide AID/W with basic project information and permit longer-term critical assessment of the results

of the activity, the validity of the judgments which led to approval of the project, the effectiveness of U.S. and cooperating country implementation, and the overall usefulness of the project in terms of U.S. country objectives.

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IMPROVING THE AID PRODUCT

Reference Reading:

Principles of Foreign Economic Assistance (AID Publication)

Ch. II 1/

1/Included in your orientation kit.

LECTURE OUTLINE

- I. Why Spend Money on Research?
 - A. The Untested Hypothesis Underlying Development Assistance
 1. imperfect knowledge of the processes of development and of the most effective ways to accelerate them
 - B. The Recent History of Scientific Research
 1. disproportionately handsome returns on investment research
- II. Development of AID Research Program
- III. Objectives of the AID Research Program
 - A. Deepen Knowledge and Understanding of the Development Processes
 - B. Improve our Ability to Perform in our Role as an AID Agency
 - C. Conduct Research in such a Way as to Increase the Research Competence and to Orient Research Interests in the Less Developed Countries
 - D. To Create a Community of Top Flight Scientists and Scholars Engaged in Research and to Advance Training in Fields Relevant to Questions of Development
- IV. How A Research Program is Developed and Executed
 - A. An Administrative Model of the Research Program

Problem definition --> stimulation of proposals --> evaluation of proposals --> negotiation of contracts --> monitoring of research underway --> review, evaluation and dissemination of reports --> utilization of research results.
 - B. Discussion of the Roles and Relationships of Various AID/W and USAID Personnel in Each of These Steps.
 1. illustrations of how work in practice

- V. Structure and Composition of the Current Research Program
 - A. The Distinction Between "Research" and "Analysis"
 - B. The Areas of Concentration
 - 1. analysis
 - a. operations
 - b. systems
 - 2. research
 - a. social systems
 - b. human resources
 - c. materials resources
 - d. agriculture
 - e. public health
 - C. Illustrations of Projects Underway in Each Area
- VI. Special Significance for USAID Personnel
 - A. Problem Definition
 - B. Relationships with Researchers
 - C. Use of Results
 - D. Side Effects on Operations
 - 1. availability of experts
 - 2. sources of additional information
 - 3. training of locals
 - 4. impact on host government officials

Other Relevant Reading:

Development of the Emerging Countries -- An Agenda for Research,
by Asher, Hagen, Hirschman and others (Brookings)

NOTES

PROGRAMMING AND COORDINATING AID ASSISTANCE

Reference Reading:

Principles of Foreign Economic Assistance (AID Publication)

Chs. II, IV, VI. 1/

"Program Assistance: Introduction" AID Manual Order 1101.1. 2/

1/Included in your orientation kit.

2/Included in this handbook.

LECTURE OUTLINE

I. Introduction

A. Nature of Assistance

1. always related to other considerations
2. always under tension of various conflicting views

B. Programming in Process of (1) Relating and (2) Selecting

1. reaching agreement on what? and how much?
2. programming viewed structurally -- the CAP (Country Assistance Plan)
3. programming viewed through time -- the Budget Cycle

II. The Country Assistance Plan

The CAP is the bridge between broad objectives of foreign policy and what in fact is done - procurement and technicians.

A. The Framework is Rooted in Many Strands of Analysis

1. economic - GNP, balance of payments, trade, sectors, investment, budget
2. political - leadership, party structures, dynamics of political forces
3. social - class structure, distribution of wealth, value systems, counterproductive traditions
4. military - drain on resources, defense risks, potential role in development

5. institutions - educational, financial, service - strengths and key weaknesses
6. availability of other assistance, resources
- B. Assistance Strategy - The Key Stone
 1. a plan of action and influence
 2. results from interaction of purpose and situation
 3. measured against three criteria
 - a. degree of U.S. interest
 - b. investment productivity -- self-help
 - c. lack of other resources -- internal or external
 4. Country Assistance Strategy Summary (CASS)
 - a. that in CAP which is reworked in AID/W and approved
- C. Program - Proliferating into Proposed Uses of Tools of Assistance
 1. program assistance
 - capital assistance) organized in goal plans and projects
 - technical assistance)

III. Long Range Assistance Strategy

- A. Glorified CAP
 1. major difference in degree, quality, depth, focus
 2. long strategy, underneath problems
- B. The LAAS Team - USAID, AID/W, Outside Consultants, Economists, Social Scientists, Professions
- C. Relation to National Policy Studies of State (Rostow)
- D. Review by Regional, Interagency, Administrator
 1. results in:
 - a. approved strategy statement
 - b. simplified subsequent program budget cycle

IV. Budget Cycle

- A. Resolution of Conflicting Views, by Successive Approximation Iterative Process
- B. 30-Month Cycle
 1. guidance for FY 66 should precede presentation of FY 65 and will barely follow appropriation of FY 64
- C. The Timing
 1. spring preview - strategy and level
 2. fall budget - CAP and submission to BoB
 3. presentation - spring and summer
 4. operational year budget - fall plus revisions
 5. implementation approval
 - a. program
 1. balance of payments analysis
 2. budget analysis
 3. political

- b. capital
 - 1. investment analysis
- c. technical
 - 1. project approval
 - 2. level of continuing activities
 - 3. new projects
- 6. funding
 - a. accompanies program and capital approval
 - b. follows technical-to be spread by mission

V. Special Problems of Coordination

- A. Other U.S. Assistance
 - 1. administrator's role as FA coordinator
 - 2. ambassador's role as chief of mission
 - 3. special AID responsibility for integrated assistance programming
- B. Need for Close Relations With:
 - 1. MAP - military assistance division
 - 2. EX-IM Bank - DLC, NAC check procedures
 - 3. PL 480 - interagency committee, Food for Peace Director
 - 4. educational exchange
 - 5. Peace Corps
- C. U.S. Balance of Payments
 - 1. major and deep-seated problem
 - 2. restrictions on source and origin
 - 3. avoidance of cash transfers
 - 4. policy regarding local costs
 - 5. alternative means of financing program assistance
 - 6. gold budget - target of \$500 million outflow

VI. Concluding Note

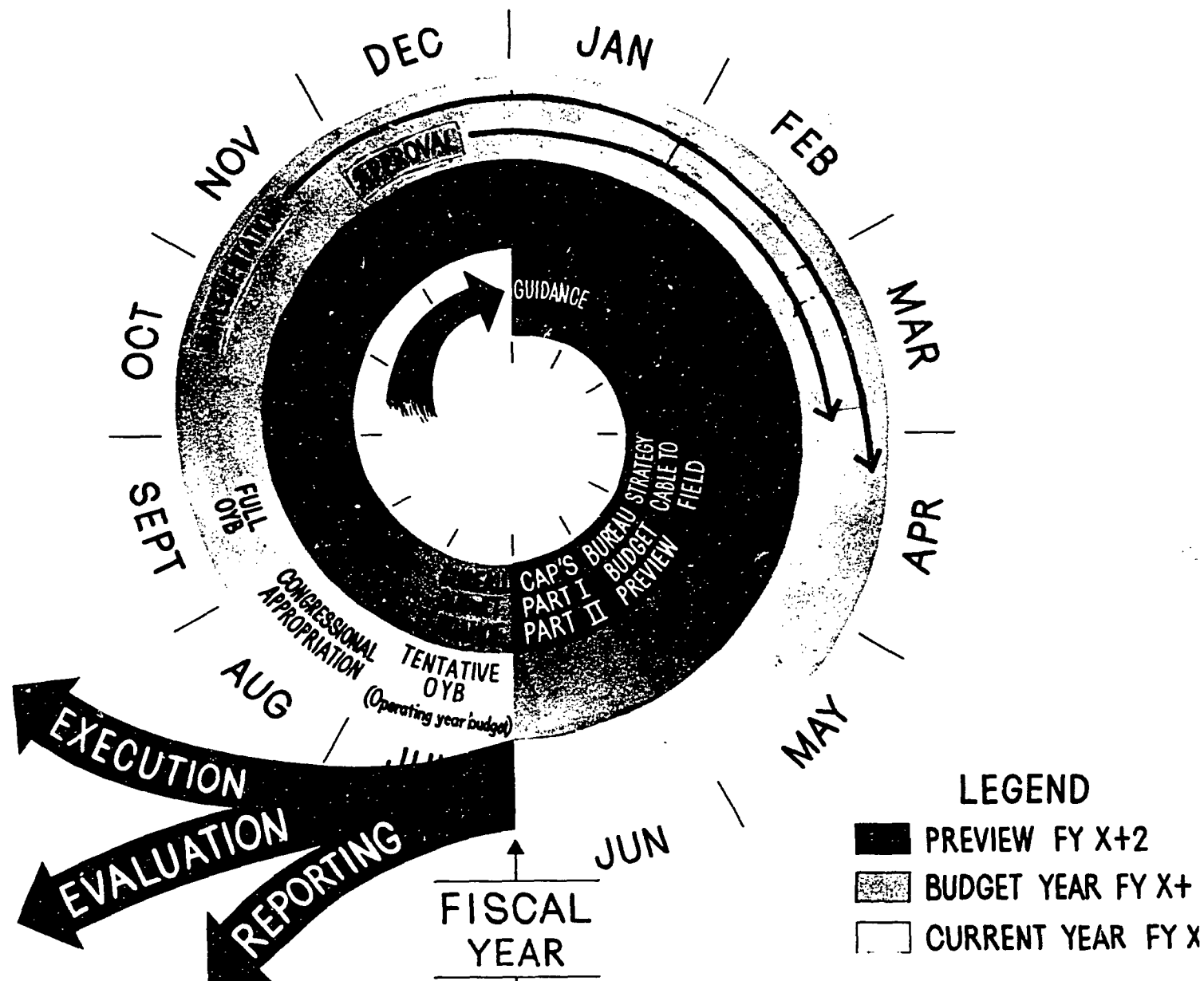
- A. A Complex Business, Full of Frustration
- B. 20th Century, American Sublimation of Empire
 - 1. rooted in American ideas
 - a. federalism
 - b. neighborliness
- C. A Great Enterprise

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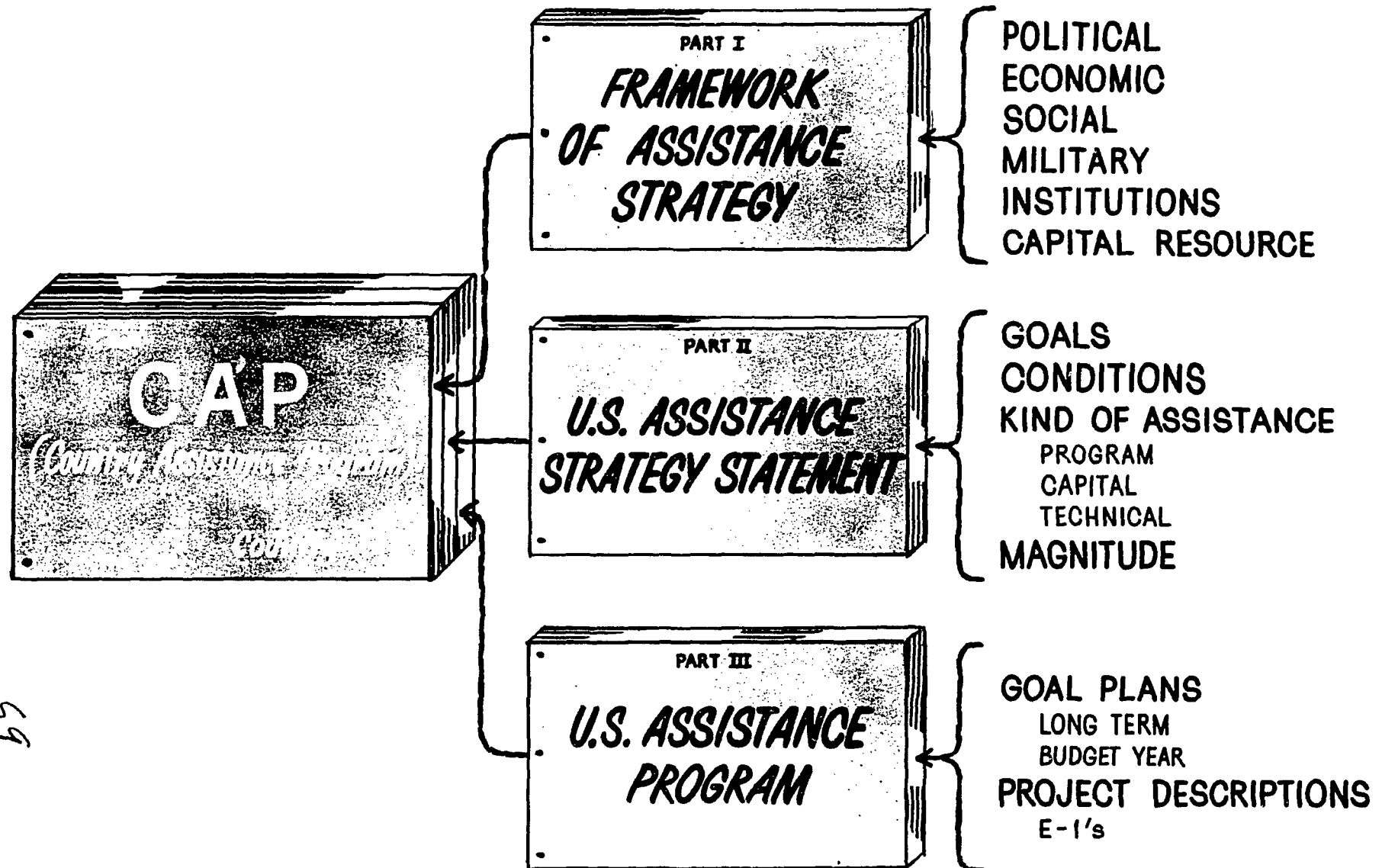
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THE BUDGET/PROGRAM CYCLE COVERS 30 MONTHS



THE COUNTRY ASSISTANCE PROGRAM BOOK



AGENCY FOR INTERNATIONAL DEVELOPMENT MANUAL		ORDER NO. 1101.1	PAGE 1
SUBJECT Program Assistance: Introduction		TRANS. LETTER NO. 10-1	EFFECTIVE DATE Sept. 30, 1963
		SUPPLEMENT	

I. General

This manual order provides a general introduction to the guidance on Program Assistance contained in Chapter 1100 of the AID Manual. Program Assistance is an activity of a non-project nature (i.e., loan or grant) undertaken to provide resources to a cooperating country, under circumstances where the totality of the resources made available, rather than their particular use, constitute the primary U.S. concern. The major Program Assistance activities are:

A. AID Commodity Program Assistance;

B. Public Law 480 Program Assistance, i.e., commodity financing activities under P.L. 480, Titles I and IV, economic development activities under P.L. 480, Title II, Section 202, certain donation programs under P.L. 480, Section 302, and barter of agricultural surpluses under P.L. 480, Title III, Section 303;

C. Local Currency Use for Budget Support; and

D. Cash Transfers.

It should be noted that commodity programming procedures and methods are used not only for Commodity Program Assistance but as a means of meeting capital or technical project local costs.

Succeeding manual orders in this section describe the statutory and policy requirements applicable to Program Assistance and the distribution of responsibilities for the implementation of such assistance. (For the complete text of the FA Act and of P.L. 480, see M.O. 101 - Foreign Assistance Legislation and Related Documents.)

Section 1110 discusses the budgetary, balance of payments, and other considerations that are assessed in the planning and approval of Program Assistance. (See M.O. 1111.1 - Program Assistance Planning: Introduction and M.O. 1114.1 - Selection of Program Assistance Category and Commodity Assistance Procedures.)

Section 1120 establishes procedures for dollar and P.L. 480 Program Assistance approvals, and contains directions as to the content and form of the Program Assistance Approval Document (PAAD), AID 1120-1. (See M.O. 1121.1 - Program Assistance Approval Document.)

Section 1130 covers the Program Assistance Agreement for dollar activities, whether financed on a loan or grant basis.

Section 1140 covers approvals, agreements, and implementation of P.L. 480 programs for foreign currency sales, long-term dollar credits, and grants to governments of surplus agricultural commodities.

The procedural and introductory guidance for P.L. 480 program activities is also included.

Section 1150 covers approval agreements and implementation procedures for the use of U.S.-owned or -controlled local currency for budget support purposes and cross references manual orders covering proposals.

Section 1160 describes implementation and reporting procedures for dollar commodity financing.

Finally, Section 1170 is concerned with reporting and evaluation requirements for Program Assistance as a whole.

II. Role and Objective of Program Assistance

Program Assistance has the objective of influencing a complex economic entity considered as a whole. In ideal terms this complex entity is the total economy of a cooperating country, frequently it is smaller. The special characteristic of Program Assistance is that neither the immediate form of the assistance nor the specific use of the funds is necessarily directly related to the objective to which the aid is addressed. For Program Assistance, questions of policy objectives, total amount and timing are primary, while questions of commodity content or channels of implementation are secondary. These attributes of Program Assistance do not mean, however, that the selection of the commodities which AID finances is of no significance. Some categories of commodity imports may enhance the possibility of achieving the overall objectives of Program Assistance; others may be counterproductive. (See M.O. 1114.1 - Selection of Program Assistance Category and Commodity Assistance Procedures for further discussion.)

Program Assistance is most useful as a means of achieving AID goals when the cooperating country provides either a commercial and investment market or a budget of government activity, which all-otates the necessary amount of additional resources more effectively than AID could through detailed activity planning. This tends to be the case in countries where relatively massive support is needed. In certain countries, for example, the need for relatively large-scale aid may exceed the capability of AID and the government of the cooperating country to mount projects. Reliance on the market or the general budget for distribution of the assistance is then necessary. In countries with relatively advanced development plans and/or extensive private enterprise, this method of operation may be inherently preferable. The reasons for choosing Program Assistance rather than Project Assistance must be made clear in the Country Assistance Strategy Statement or in the Program Assistance Approval Document.

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III. Distinction Between Program Assistance and Project Assistance

The purpose of the assistance, in the sense of the focus of AID attention and degree of U.S. control over the use of the particular resources made available, is the critical factor in distinguishing between Program Assistance and Project Assistance.

Where, for example, the primary U.S. interest is in construction of a physical facility, even one financed mainly or wholly with local currencies, dollars made available for that purpose are not deemed Program Assistance, even though used to finance commodity imports for general consumption within the economy of the cooperating country. In such cases, the proposal for AID financing of the physical facility is documented, reviewed and approved in accordance with the procedures prescribed for Capital Assistance in Chapter 1200 of the AID Manual. On the other hand, where the primary purpose of the assistance is to meet a cooperating country's balance of payments or budgetary needs, or to achieve indirectly a policy purpose, such dollar assistance is Program Assistance, and is documented, reviewed and approved in accordance with the procedures presented in this chapter, notwithstanding the fact that the local currencies thereby generated may ultimately be used to finance Technical Assistance or Capital Assistance projects in the cooperating country.

It is inevitable that in certain cases categorization will be difficult. AID may have a multiplicity of objectives in providing assistance, and it may be difficult to determine in a particular case whether project or program review procedures are more appropriate. The U.S. motivation may be both to fill a balance of payments gap by providing needed commodity imports and to obtain local currency for priority projects. In these marginal cases, the categorization of assistance is determined by the responsible regional Assistant Administrator, in light of the foregoing criterion and with the advice of interested staff offices and the Mission concerned. Whichever the choice, all of the relevant policies, criteria, documentation, review, approval and implementation processes prescribed for that form of assistance will apply.

The nature of the commodities to be financed is not the determining factor. Capital equipment may well be included in Program Assistance, e.g., in an equipment loan where AID is interested in supporting a market or budget rather than in reviewing specific uses or beneficiaries. On the other hand, raw materials or operating supplies may be provided under project assistance when AID is concerned with influencing the specific uses to which they will be put, e.g., fertilizer in support of a new irrigation or extension system.

Missions are free to propose whichever type of analysis and presentation, program or project, it feels is most appropriate to a particular activity. In doubtful cases, however, it also provides information relevant to the alternative treatment. For example,

a Program Assistance proposal for an equipment loan indicates what the equipment will be used for; and a project proposal involving operating supplies relates the requirement to the country's import financing requirements and to the budget of the ministry concerned or to the payments by the recipients.

IV. Categories of Program Assistance

The various categories of Program Assistance described above are covered in detail in subsequent manual orders in this chapter. Considerations bearing on the choice among them are indicated in M.O. 1114.1.

The Program Assistance Activities are:

A. AID Commodity Program Assistance

This may be provided under any AID appropriation, on a loan or grant basis, and may be made available for security, development or other objectives, and either primarily to meet a deficit in external resources or primarily to generate local currency. AID Commodity Assistance may be administered under any of the following commodity financing procedures which are also used to meet project local costs:

1. Standard Commodity Financing Procedure

This procedure applies where prior authorization by the cooperating country of individual import transactions makes compliance with AID Regulation I possible. (See M.O. 1162.2.)

2. Alternative Commodity Financing Procedure

This procedure applies where prior authorization by the cooperating country of individual import transactions is not feasible, but where the requirement for a Supplier's Certificate is feasible. (See M.O. 1162.3.)

3. Commodity Financing, Minimum Requirement Procedure

The minimum requirement procedure for commodity financing is applicable where inability to require the Supplier's Certificate means that compliance with the statutory commodity financing requirements can only be enforced against the borrower/grantee. (See M.O. 1162.4 - Minimum Requirements Commodity Financing Procedure.)

4. Attribution to U.S. Exports of Dollar Local Cost Financing

This procedure applies where budget support and project local cost financing, which in total does not significantly affect the cooperating country's import requirements, is transferred to the cooperating country by financing imports from the U.S. through procedures similar to those described

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in paragraphs A, 2, and 3, above, without regard to the requirements governing commodity financing. Program Assistance is rarely so small as to qualify for such attribution of local cost financing to imports of U.S. source, without also being subject to the statutory requirements governing commodity assistance, but in a number of countries Capital and Technical Assistance local costs can be so covered. (See M.O. 1144.1.)

B. Public Law 480 Program Assistance

1. Title I. Sales for Foreign Currency

Title I is a flexible instrument for financing a limited range of surplus agricultural commodities on terms which may range from nearly commercial to extremely generous. Under this Title, agricultural commodities designated by the Secretary of Agriculture as in surplus supply are sold for local currencies under agreements with friendly nations. Part of the local currency acquired by the U.S. from these sales is reserved for "U.S. uses" and is subject to the provisions of Section 1415 of the Supplemental Appropriation Act of 1953; the remainder is designated for country use and is made available to AID to administer for loans or grants for economic development or for the common defense. The sale of the commodities constitutes Program Assistance, regardless of the local currency uses stipulated in the agreement. Use of the local currencies for budgetary support also falls within the Program Assistance category. (See manual orders in Section 1510 for the statutory requirements and other guidance applicable to the various types of local currencies.) (See M.O. 1142.1 - Program Assistance: Public Law 480 - Title I, Sales of Surplus Agricultural Commodities for Foreign Currencies.)

2. Title IV. Long-term Dollar Credits

Surplus agricultural commodities may also be programmed through commercial channels under Title IV of P.L. 480 which authorizes the sale of surplus agricultural commodities under long-term supply contracts of up to 10 years duration, repayable in dollars to the U.S. over period of up to 20 years. While the law does not require formal arrangements concerning the use of the sales proceeds, the purpose of the title is economic development, and both the commodities supplied and the sales proceeds offer opportunities for furthering assistance objectives. Credit terms under this program generally approximate those for development loans. Title IV may provide a simpler and clearer policy instrument than Title I with a cooperating country, especially a country with which a Title I agreement would contain a substantial U.S. use share of the sales proceeds and a loan repayable in local currency which would in turn be consumed for U.S. uses. (See M.O. 1145.1 - Program Assistance: Public Law 480, Title IV, Sales of Surplus Agricultural Commodities for Dollars.)

3. Title II, Section 201. Commodity Grants for Emergency and Extraordinary Relief.

Section 201 of P.L. 480 authorizes emergency and extraordinary relief assistance, normally through the direct distribution of food or feed through government or private channels to friendly, but needy, populations. Section 201 aid is not categorized as Program Assistance. In some instances the most effective way of distributing this emergency assistance is through commercial sale with the sales proceeds being used to finance relief and reconstruction projects on which needy people in the disaster area are employed. For criteria and procedures for handling this special activity see Section 1560 - Foreign Disaster Relief.

4. Title II, Section 202. Commodity Grants for Economic Development (see M.O. 1143.1 - Public Law 480, Title II, Grants of Surplus Agricultural Commodities (Section 202))

Section 202 of P.L. 480 authorizes commodity grants for economic development projects and programs which cannot be accomplished under Title I, provided the commodities transferred will not displace or interfere with sales which might otherwise be made.

Those Section 202 grants which are contributions to dollar-supported projects are considered for approval and administration within the context of such projects. This authority is also used, however, for agreements governing nationwide or regional school-lunch or work-relief programs. The criteria and procedures for such programs are covered in M.O. 1143.1 - Program Assistance: Public Law 480, Title II, Grants of Surplus Agricultural Commodities (Section 202)).

5. Title III. Voluntary Agency Donations

Section 302 of P.L. 480 authorizes the donation of surplus agricultural commodities to non-profit American voluntary relief agencies and inter-governmental organizations for use as assistance to needy persons outside of the United States. This special activity is considered Program Assistance only in those relatively few cases covering large-scale, governmentally administered school-lunch and relief programs which, for various reasons, are continued under Title III rather than being handled under Title II, Section 202. (See Subsection 1551 of the AID Manual.)

6. Title III, Section 303. Barter of Agricultural Surpluses

Section 302 of P.L. 480 requires federal agencies to cooperate with the Department of Agriculture in using surplus stocks of agricultural commodities to finance offshore procurement of goods

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for use overseas. (See M.O. 1144.1 - Program Assistance, P.L. 480, Title III, Barter.) This authority is particularly useful for meeting needs for commodities of which the U.S. is a net importer. Procurement is arranged by the USDA under a PA/PR (See M.O. 1163.5 - Procurement Authorization/Purchase Requisition) and is chargeable to the appropriate AID appropriation and allotment.

C. Cash Transfers

A Cash Transfer is the release of funds to a cooperating country in the absence of, or in advance of, requirements for documentation to showing actual use of the funds, usually associated with an emergency situation. Cash Transfers for Program Assistance purposes are generally provided as budget support and, less commonly, for emergency foreign exchange support. Because use of Cash Transfers negates many important programming objectives, this device is employed only when other program financing methods are demonstrably inoperable and when specifically authorized by the Administrator. For further information see M.O.'s 1114.1 - Selection of Program Assistance Category and Commodity Procedures, 1121.1 - Program Assistance Approval Document, and 1131.1 - Program Assistance Agreement, Dollar Activities.

D. Local Currency Budget Support

The preferred method of providing budget support and for covering any other local-cost financing requirement which the U.S. agrees to meet is to provide counterpart or sales proceeds of program commodity financing under the FA Act or P.L. 480. In every country where commodity Program Assistance provides an opportunity for the generation of local currencies, a review of local currency supply and requirements is an integral part of the program presentation and of the AID/W review and approval process. Implementation responsibility, however, is generally the responsibility of the Mission and the cooperating country. (See M.O. 1151.1 - Local Currency Program Assistance - Approval, Agreement and Implementation. See also manual orders in subsection 1512 setting forth the statutory and other requirements pertaining to the various types of local currencies owned and controlled by the United States and in subsection 1514 providing guidance on the financial management of these currencies.)

For further discussions see M.O. 1011.4 - Programming Principles and Techniques: Choice Between the Program Approach and the Project Approach.

V. The Program Assistance System

The categories of Program Assistance - AID Commodity Program Assistance, P.L. 480 Program Assistance, Local Currency used for Budget Support, and Cash Transfers - although different in many respects, have important procedural similarities. Generally, in each case the system comprises five

steps-- 1) program planning, 2) approval, 3) agreement, 4) implementation, and 5) reporting and evaluation.

A. Program Planning

The basic planning for Program Assistance is part of the Country Assistance Program (CAP) or the Long-Range Assistance Strategy (LAS) process described in subsections 1022 and 1023 of the AID Manual. Since Program Assistance is intended to affect the economy as a whole, decisions concerning the level of aid and the selection of broad categories of assistance are based on over-all analyses of the cooperating country's internal economic situation and balance of payments in the light of established U.S. objectives. These analyses are prepared and summarized by the Mission in the CAP or LAS submission. The preparation of the supporting analysis and choice of the Program Assistance category are discussed in Section 1110 of the AID Manual.

Dollar and P.L. 480 Program Assistance often result in the generation of local currency, a portion of which is available for country use subject to AID approval. In order to assure that these currencies are used as planned, to avoid excess local currency accumulations of amounts reserved for specific purposes, and to prevent unnecessary resort to the use of FA Act dollar funds for local costs, the generation and the use of local currency must be coordinated at every stage. This "parallel programming" process begins with the CAP or LAS submission in which local costs and local currency availabilities and proposed uses are analyzed and related meaningfully by the Mission. In the course of its review of the CAP or LAS submission, AID/W also analyzes the local cost implications of each program and reflects its decisions in the approval, or disapproval, of the recommended local currency budget support program. Local currency requirements for Capital and Technical Assistance projects and Local Currencies Activities, where applicable, also enter into this review but are approved through project approval procedures.

The LAS and CAP Program Assistance analyses, together with similar information on other types of assistance are the basis for the annual Bureau of the Budget submission and the Congressional Presentation. They are also the basis for the Operational Year Budget (OYB), prepared following the passage of the appropriations legislation by the Congress, through which the Administrator approves planning levels for Program Assistance and other types of aid including that under P.L. 480.

B. Approval

P.L. 480 and dollar Program Assistance activities are approved for obligation by means of the Program Assistance Approval Document (PAAD) (See M.O. 1121.1 - Program Assistance Approval Document (PAAD). The PAAD provides basic information as to the nature, amount, purpose and timing

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of the proposed Program Assistance and contains, or is accompanied by, an up-to-date analytical justification in aggregate economic terms. The controls proposed for the local currency to be generated are indicated and explained. The PAAD is approved by the Administrator for all activities which 1) deviate from OYB levels by more than the adjustment authority delegated to the regional Assistant Administrators or the Assistant Administrator for Program Coordination, 2) present significant policy issues, or 3) are in the area for which the Administrator has reserved approval authority. For example, PAAD's for proposed Cash Transfers are approved by the Administrator. Other PAAD's, not reserved for the approval of the Administrator, are approved by the regional Assistant Administrator. The approval process is described in M.O. 1121.1 - Program Assistance Approval Document (PAAD). (See also M.O.'s 1114.1 and 1151.1.)

Within levels authorized by the regional bureau for budget support, local currency use for this purpose is approved by the Mission Director for obligation when funds are available or for commitment. The Mission document corresponding to the PAAD is called a "Release Authorization." No standard form is prescribed. (See M.O. 1151.1 - Program Assistance: Local Currency - Approval, Agreement and Implementation.)

C. The Agreement

The Program Assistance Agreement is the obligating instrument which sets out the nature, purpose, amount, and major conditions of the approved Program Assistance activity. (See M.O. 1131.1 - Program Assistance Agreement, Dollar Activities.) It is concerned primarily with the broad purposes for which the Program Assistance is to be extended, and only incidentally with implementation. It may contemplate amendment from time to time, as to amount, or may be intended to apply only to a single release of funds.

The Program Assistance Agreement is used for AID Commodity Program Assistance and Cash Transfer Program Assistance. It is usually negotiated in the field based on instructions from AID/W.

The Agreement document for P.L. 480 Title I. and IV. is the Sales Agreement (M.O.'s 1141.1 - Public Law 480 - General and 1145.1 - Public Law 480, Title IV, Sales of Surplus Agricultural Commodities for Dollars). Unlike the Program Assistance Agreement, it is not an obligating document in the fiscal sense. Instructions for field negotiation of Sales Agreements are prepared by The Agricultural Resources Division, Office of Material Resources (MR/ARD).

Both Sales Agreements and Program Assistance Agreements should provide for the uses to be made of the local currency that will be generated. The Sales Agreement ordinarily apportions

sales proceeds among the pertinent major use categories recognized in Section 104 of P.L. 480, establishing the U.S. use and Country use shares. Agreements for particular local currency uses should be negotiated, whenever feasible, concurrently with the signing of the Sales or Program Assistance Agreement.

An overall agreement may be used for substantial and continuing Title II projects, followed or accompanied by Transfer Authorizations (TA's) or the Transfer Authorization may serve as the agreement. (See M.O. 1143.1 - Public Law 480, Title II, Grants of Surplus Agricultural Commodities (Section).)

For local currency use for budget support, the agreement obligating the U.S.-owned local currencies or approving the commitment or withdrawal of counterpart funds is normally negotiated by the Mission. While no standard form is prescribed, standard provisions are required, depending on the type of currency involved. (See M.O. 1151.1 - Local Currency Program Assistance - Approval, Agreement and Implementation and Subsection 1514 - Financial Management of Local Currencies.)

D. Implementation

Program Assistance does not involve the degree of direct AID participation in implementation required in project assistance. Where local currency is provided for budget support, the cooperating country assumes primary responsibility for implementation, with varying degree of AID control or participation. Except for possible collection and deposit of local currency counterpart, AID usually has no implementation function beyond that of making the dollar available in the case of Cash Transfer Assistance beyond the terms contained in the agreement. These terms may, however, stipulate the specific uses to be made of the local currency equivalent of the dollars. P.L. 480 Title I. and IV. programs are implemented by the United States Department of Agriculture (USDA).

In the area of AID Commodity Program Assistance however, AID exercises considerable control over the use of the dollars for commodity imports. The Commodity Financing Procedure to be employed depends on the existence and character of import and exchange controls in the cooperating country and on the amount and purpose of the assistance. (See Section 1160 of the AID Manual.) There are three Commodity Financing Procedures - 1) Standard, 2) Alternative, and 3) Minimum, in descending order of U.S. control. The three procedures provide for varying degrees of documentation as regards compliance with legal and administrative commodity financing requirements. Any of the Commodity Financing procedures may be coupled with any of four basic financing "methods": 1) Direct Reimbursement, 2) Letter of Commitment to a U.S. banking institution, 3) Letter of Commitment to a Supplier, and 4) Special Letter of Credit. The choice of financing method is based on the urgency of the need for local currency counterpart, and administrative convenience. The special letter of credit method is used to make local

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currency available more quickly than is possible by the other financing methods. See M.O.'s 1162.1 - AID Commodity Financing Procedures and Methods, General, and 1162.5 - AID Commodity Financing by Special Letter of Credit in regard to Commodity Financing Procedures and Commodity Financing Methods.

E. Reporting and Evaluation

Existing AID Controller and statistical reports cover AID commodity financing and procurement, loan obligations and expenditures, other AID obligations and expenditures, project and non-project, and local currency collections, disbursements and balances. Because of this, no additional special reporting is required for Program Assistance.

Each year the CAP or LAS revision however, provides an evaluation of prior year Program Assistance in connection with the current analysis of the cooperating country's balance of payments, internal economic situation and self-help measures. This assessment is particularly relevant not only when further program assistance to the country is proposed but to presenting the effects of such assistance to the Congress.

Local currency budget support activities continues to be reported as required by M.O.'s 756.2 - Foreign Currency Reports - Sections 402, 505(a) and P.L. 480 (Title I) and 756.5 - Counterpart Funds - Reporting Requirements.

I M P O R T A N T N O T I C E

The following chart series undertakes to graphically portray the normal procedures for the implementation of AID assistance.

However, certain revisions to the charts, as indicated below, are now necessary. Other chart changes are likely to be needed in the future to reflect revised procedures.

CHART PA-1 PROGRAM ASSISTANCE

Being revised to indicate
that the allotment remains
in the Regional Bureau rather
than in the AID Mission.

CHART PA-2 PROGRAM ASSISTANCE

Being revised to indicate
new commodity procedures
now in process of clearance.

A.I.D. IMPLEMENTATION SYSTEM

CHART BOOKLET

**SUMMARY OF PROCEDURES FOR A.I.D. IMPLEMENTATION
OF CAPITAL, PROGRAM, AND TECHNICAL ASSISTANCE**

NOVEMBER 1963

HOW ECONOMIC AID APPROPRIATIONS ARE USED

APPROPRIATION CATEGORIES (Military Assistance and Administrative Categories Not Included)		
<u>LOANS</u> DEVELOPMENT LOANS SOCIAL PROGRESS TRUST FUND	<u>GRANTS</u> DEVELOPMENT GRANTS TECHNICAL COOPERATION INTERNATIONAL ORGANIZATIONS AND PROGRAMS*	<u>LOANS OR GRANTS</u> ALLIANCE FOR PROGRESS SUPPORTING ASSISTANCE CONTINGENCY FUND SCHOOLS & HOSPITALS

MAY BE USED TO TRANSFER
RESOURCES IN THE FORM OF...

1. COMMODITIES
2. PERSONAL SERVICES
3. FOREIGN EXCHANGE

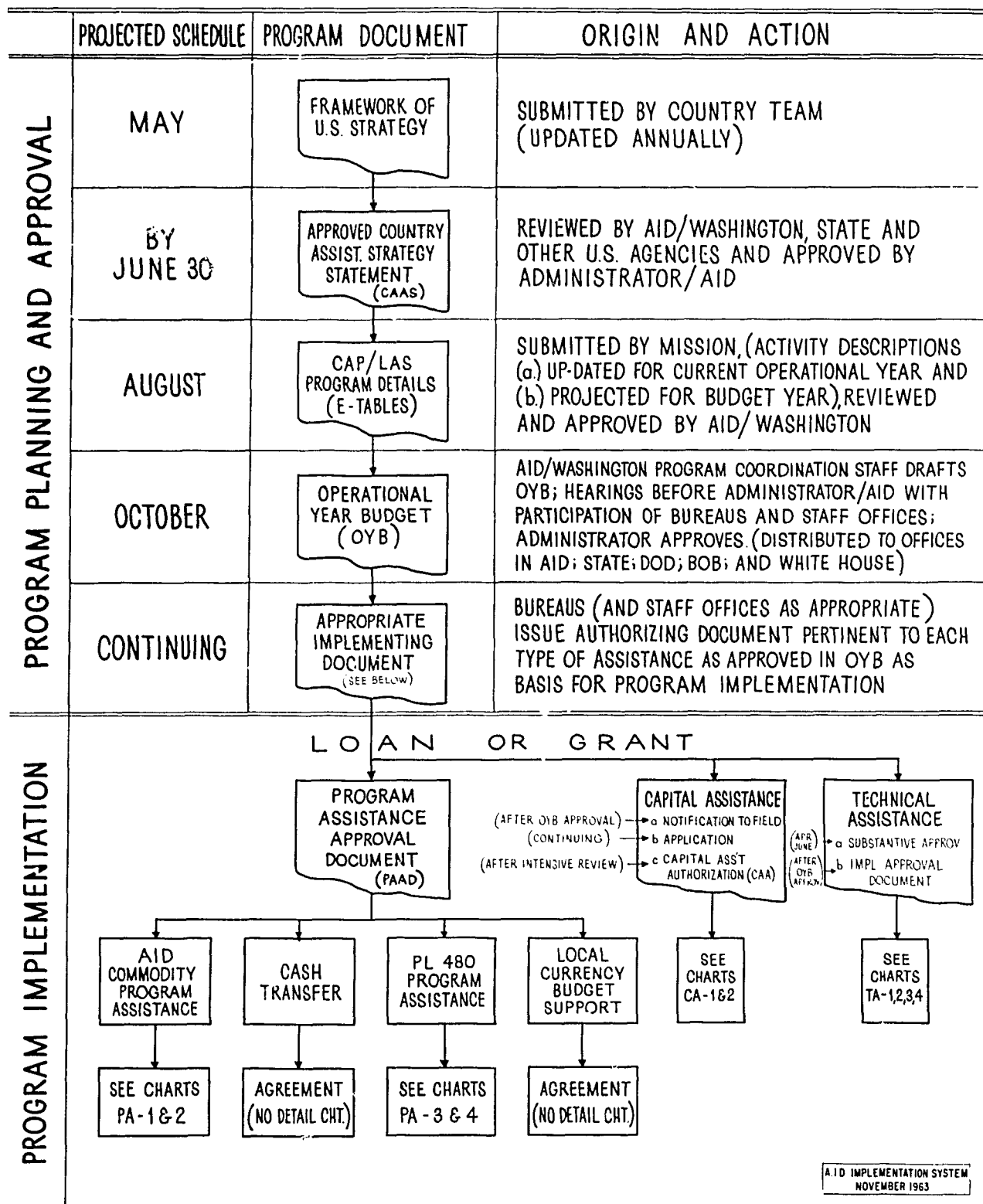
IN THESE CATEGORIES OF ASSISTANCE

<u>PROGRAM ASSISTANCE</u> TRANSFER OF RESOURCES, NOT RELATED TO A SPECIFIC PROJECT, UNDER CIRCUMSTANCES WHERE TOTALITY OF RESOURCES MADE AVAILABLE RATHER THAN THEIR PARTICULAR USE IS OF PRIMARY U.S. CONCERN	<u>CAPITAL ASSISTANCE</u> TRANSFER OF RESOURCES TO EXPAND OR ESTABLISH CAPITAL FACILITIES OR FINANCIAL INSTITUTIONS	<u>TECHNICAL ASSISTANCE</u> TRANSFER OF KNOWLEDGE, SKILLS AND TECHNIQUES TO ASSIST IN DEVELOPING HUMAN SKILLS AND ATTITUDES AND TO CREATE AND SUPPORT INSTITUTIONS NECESSARY FOR SOCIAL, ECONOMIC AND POLITICAL GROWTH AND DEVELOPMENT
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*NOTE: GRANTS TO INTERNATIONAL ORGANIZATIONS AND PROGRAMS ARE
ALLOCATED TO STATE DEPARTMENT FOR TRANSFER TO UNITED NATIONS

PROGRAMMING U.S. FOREIGN ASSISTANCE

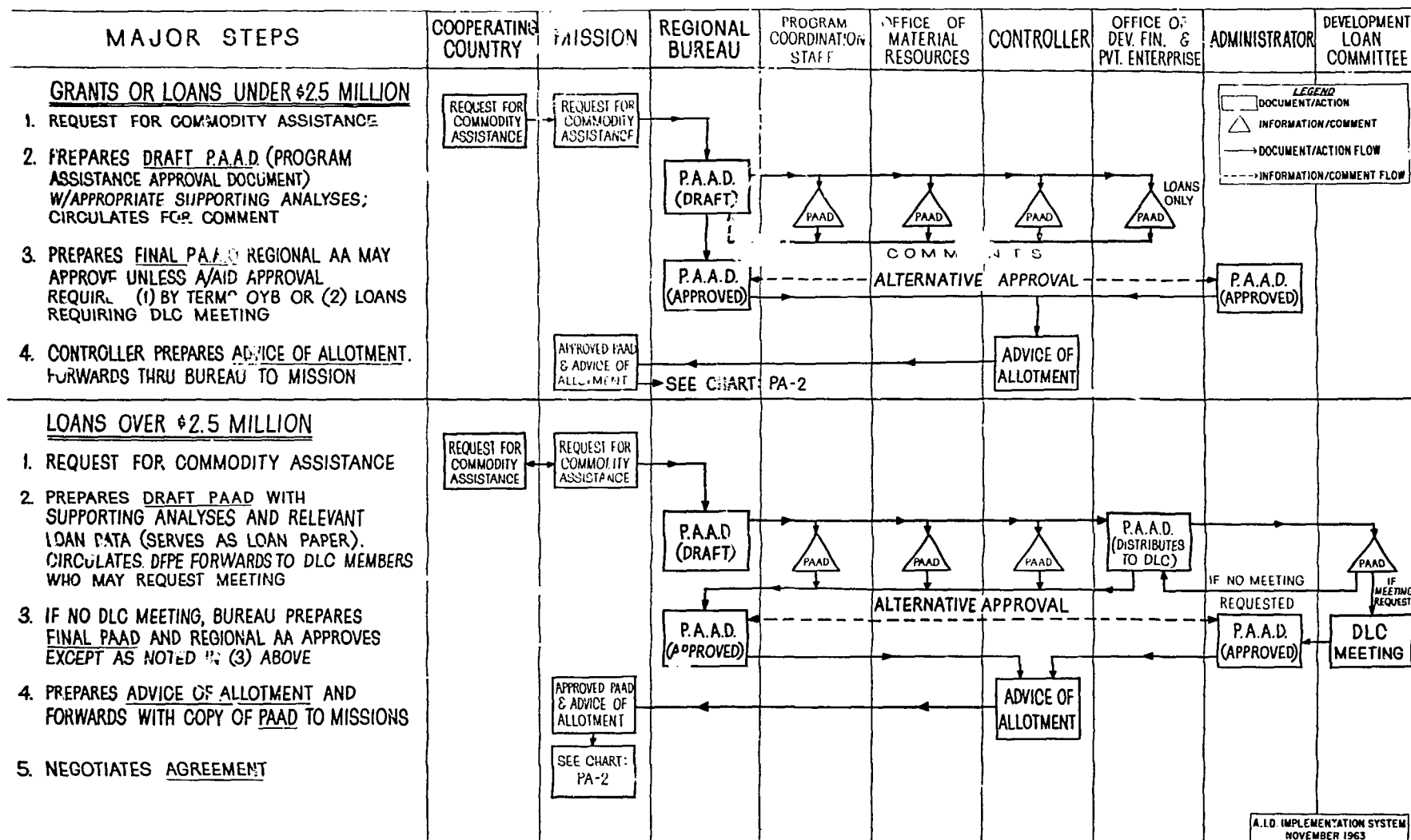
SCHEDULE OF AID PLANNING AND APPROVAL PROCESS



PROGRAM ASSISTANCE

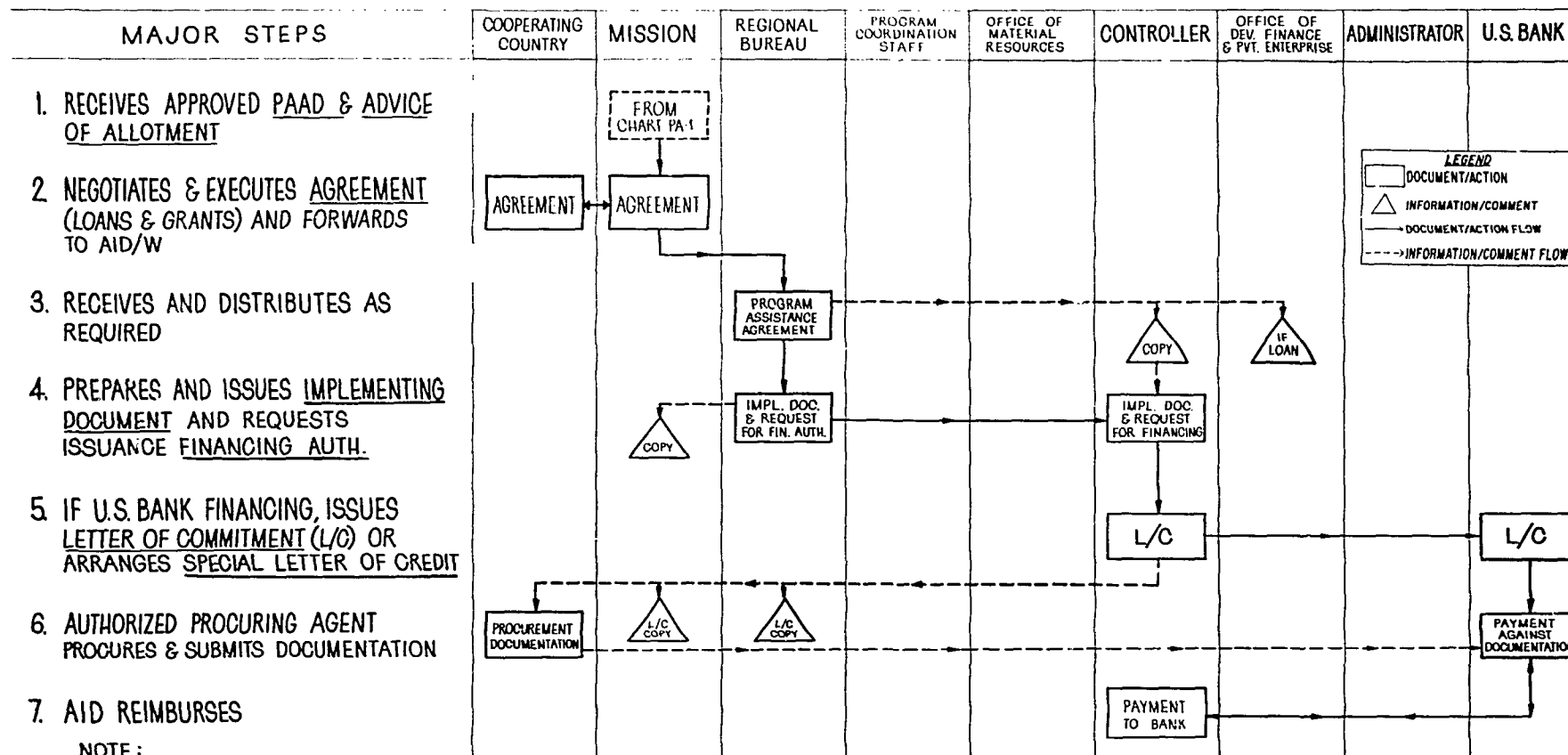
AID COMMODITY PROGRAM ASSISTANCE (LOAN or GRANT)

APPROVAL



PROGRAM ASSISTANCE

AID COMMODITY PROGRAM ASSISTANCE (LOAN or GRANT) AGREEMENT & FINANCING PROCEDURES



NOTE:

STANDARD PROCEDURE: REQUIRES SUPPLIER'S CERTIFICATE & COMPLIANCE WITH AID REG. I.

ALTERNATIVE PROCEDURE: SAME AS "STANDARD" EXCEPT LABELLING & SMALL BUSINESS REQUIREMENTS ARE WAIVED.

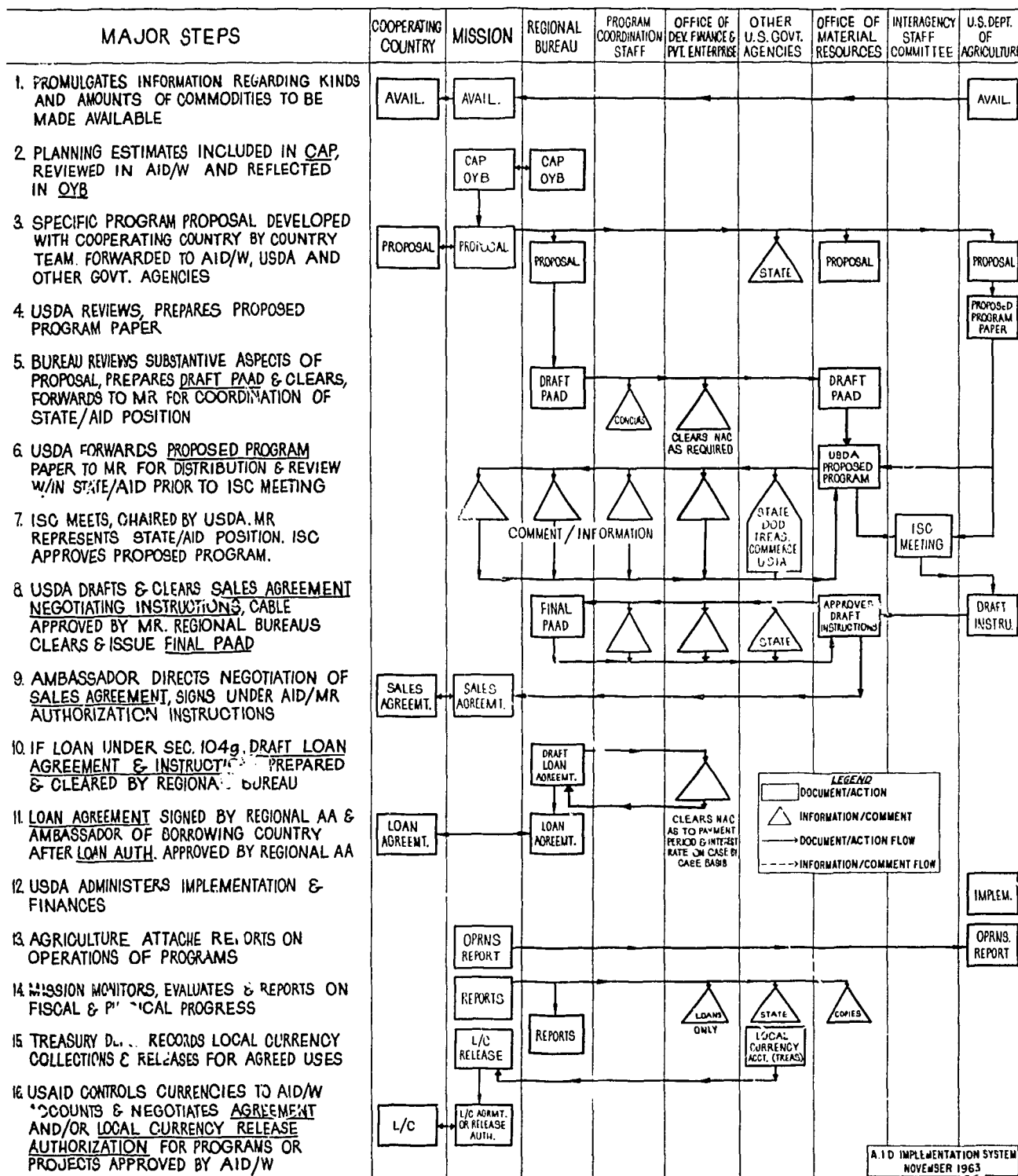
MINIMUM REQUIREMENTS: NO SUPPLIER'S CERTIFICATE REQUIRED. COMPLIANCE WITH STATUTORY SOURCE AND CUBA SHIPPING REQUIREMENTS ARE DETERMINED BY AUDIT OF COMMERCIAL DOCUMENTATION.

PL 480 PROGRAM ASSISTANCE

(U.S. FOOD FOR PEACE PROGRAM)

TITLE I (SALES FOR LOCAL CURRENCIES) & TITLE IV (SALES FOR DOLLARS)

AID PROCESSING AS A PART OF COUNTRY PROGRAMS

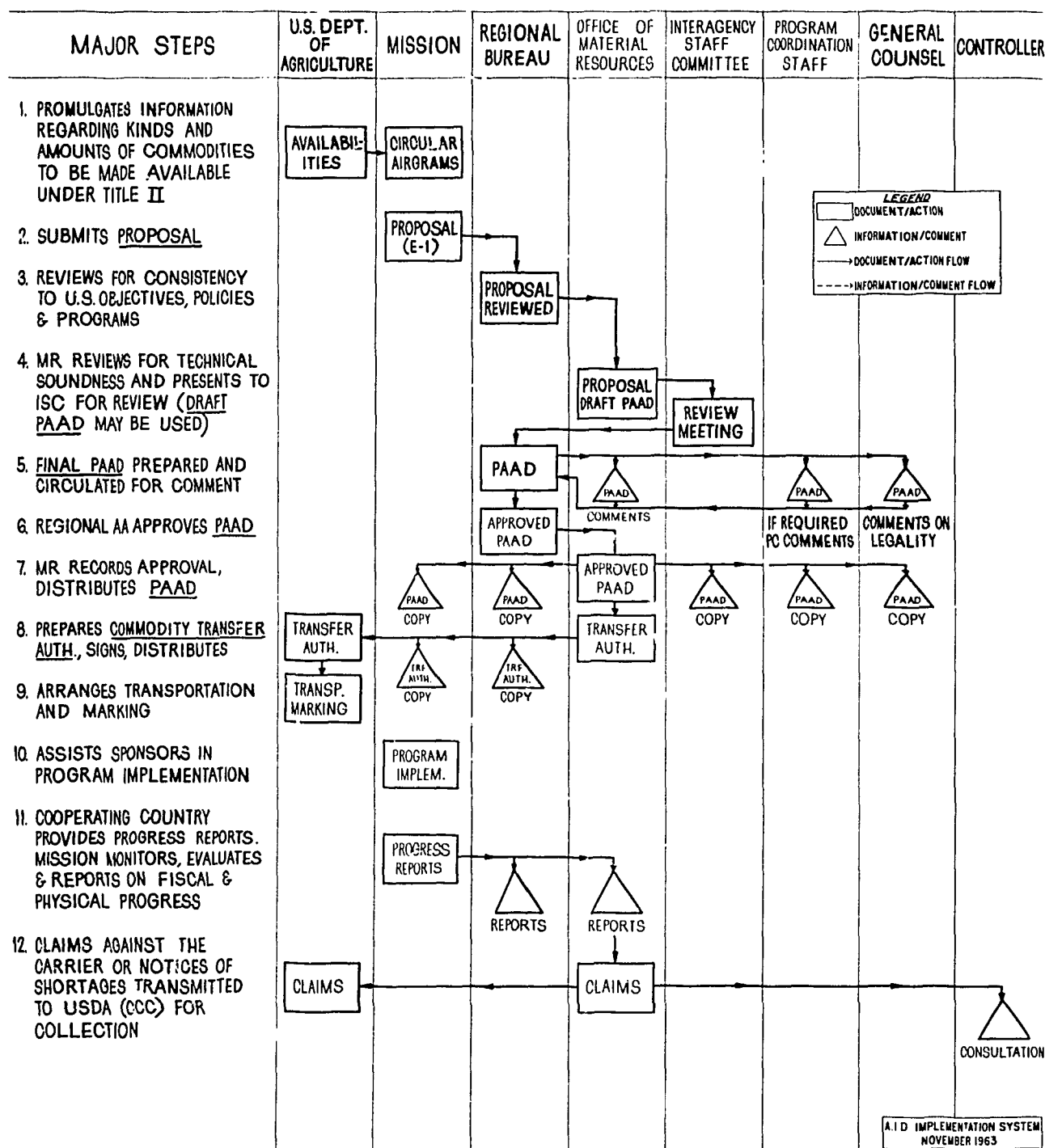


PL 480 PROGRAM ASSISTANCE

(U.S. FOOD FOR PEACE PROGRAM)

TITLE II (SEC. 202 GRANTS)

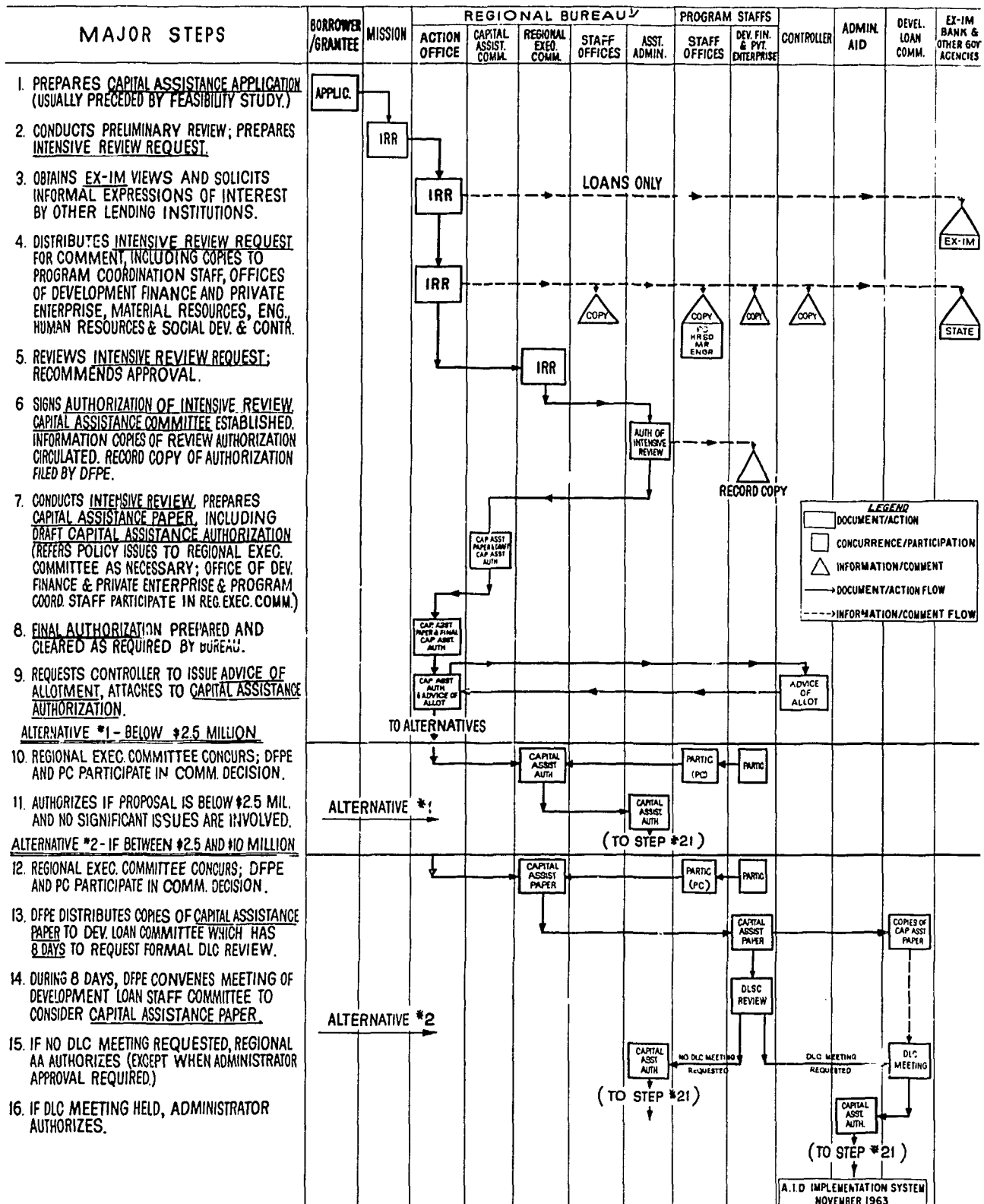
AID PROCESSING AS A PART OF COUNTRY PROGRAMS



CAPITAL ASSISTANCE

APPLICATION, REVIEW AND APPROVAL

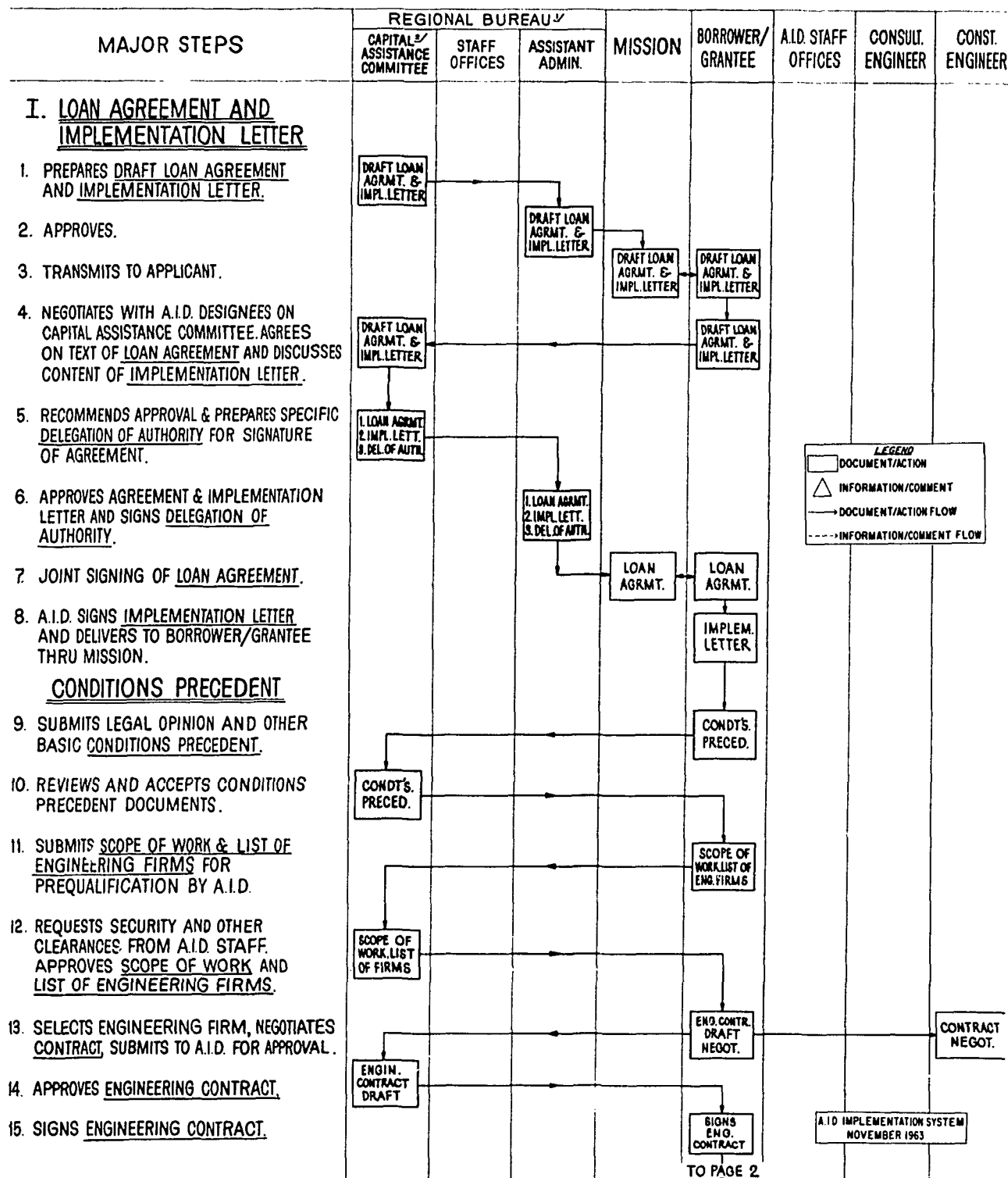
CHART: CA-1
PAGE 1 OF
2 PAGES





CAPITAL ASSISTANCE IMPLEMENTATION

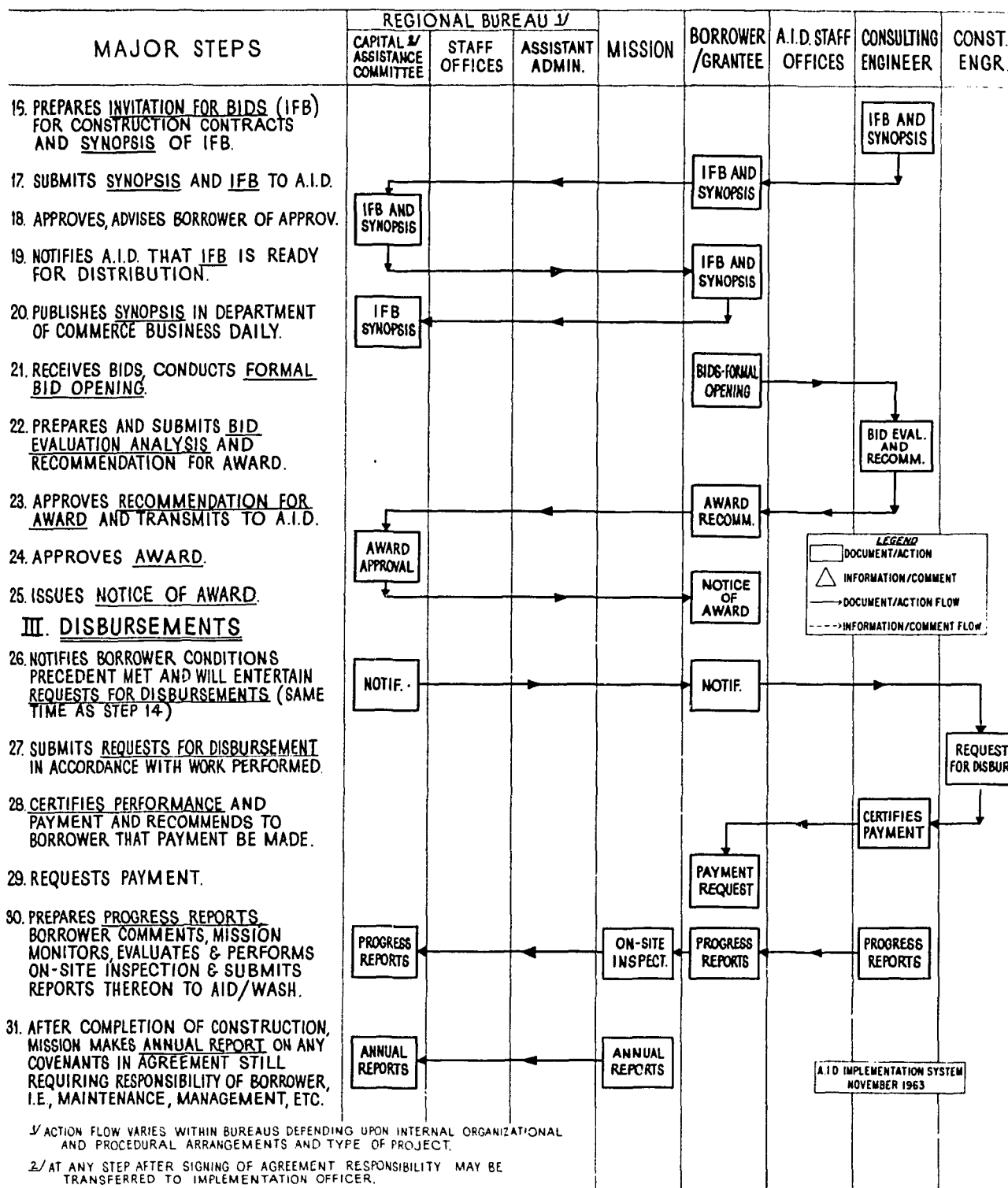
ILLUSTRATIVE - CAPITAL CONSTRUCTION PROJECT



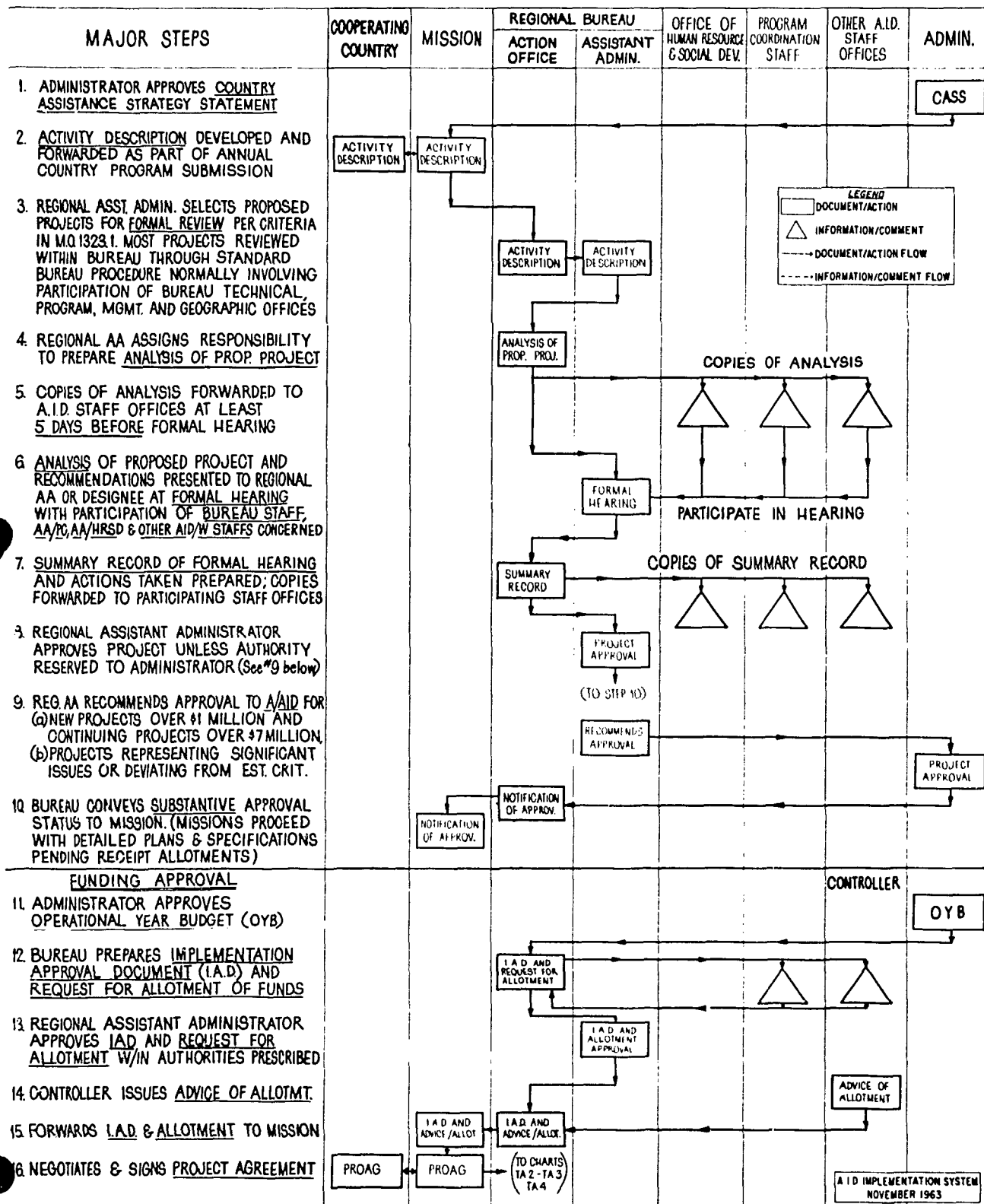
CAPITAL ASSISTANCE (Cont'd.)

IMPLEMENTATION

(ILLUSTRATIVE - CAPITAL CONSTRUCTION PROJECT)



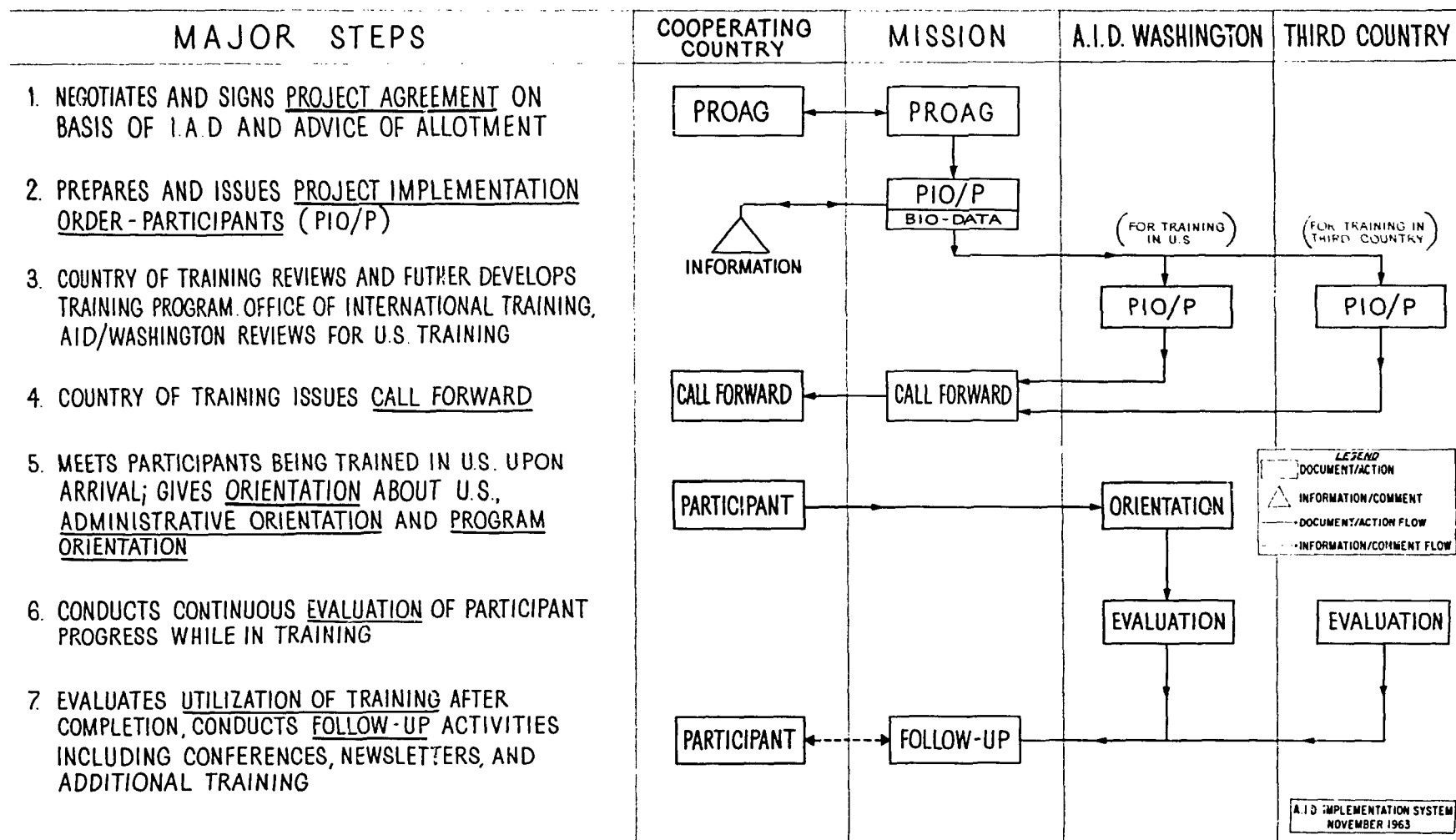
TECHNICAL ASSISTANCE PROPOSAL, REVIEW AND APPROVAL



TECHNICAL ASSISTANCE

IMPLEMENTATION

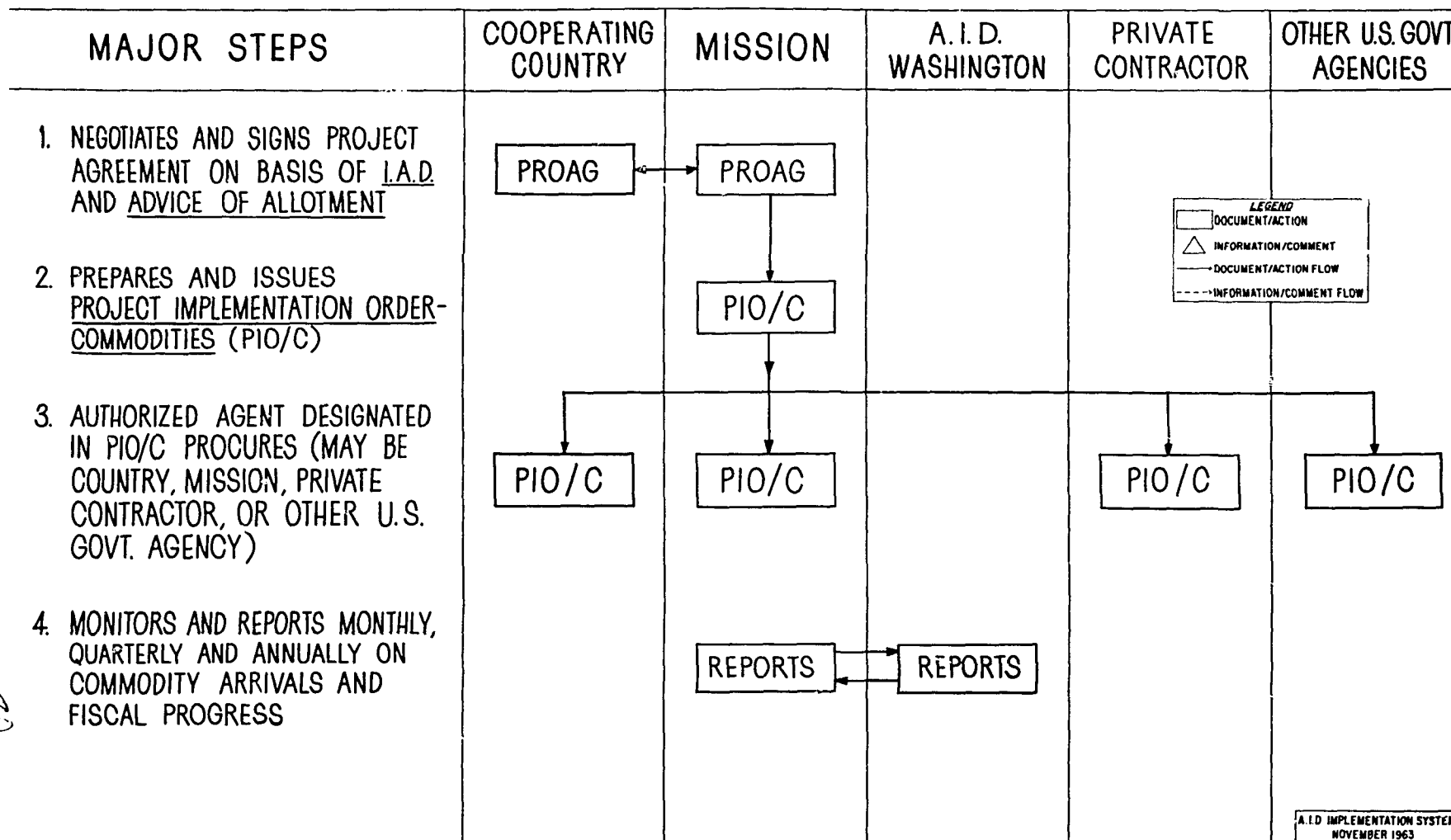
PARTICIPANT TRAINING PIO/P



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TECHNICAL ASSISTANCE

IMPLEMENTATION COMMODITY PROCUREMENT-PIO/C



TECHNICAL ASSISTANCE

IMPLEMENTATION

TECHNICAL SERVICES PROCUREMENT-PIO/T

